

JPRS-UIA-89-017  
13 NOVEMBER 1989



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# ***JPRS Report***

# **Soviet Union**

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***International Affairs***

# Soviet Union International Affairs

JPRS-UIA-89-017

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13 NOVEMBER 1989

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## Shevardnadze Links Foreign Policy, Domestic Reform

90U/0003 Moscow PRAVITELSTVENNYY VESTNIK  
in Russian No 18, Sep 89 p 7

[Interview by L. Chernenko with E. A. Shevardnadze, Member of the Politbureau of the CPSU Central Committee, USSR Minister of Foreign Affairs: "Diplomacy Works For Perestroyka and Perestroyka, Its Authority and Prestige Work for Diplomacy"]

[Text] [Correspondent]: Eduard Amvrosievich, our foreign policy has scored quite a few successes now. At the same time, internal difficulties keep growing. Do they affect our foreign policy line, don't they put the brakes on any further movement forward? What do you think in general is the connection between our internal and external policies? On the other hand, how do you think our foreign policy can exert a stronger influence on domestic affairs?

[Shevardnadze]: You asked me several questions at once. To answer your first question, the domestic difficulties undoubtedly affect our foreign affairs. We can feel this even physically during the negotiations. Conversely, it becomes much easier to work as soon as things straighten out.

The West has not outlived its doubts about the success of perestroyka, its irreversibility; voices are heard urging not to hasten to respond to one or another step made by the Soviet side, since no one knows how things may pan out... There is no doubt that this somewhat locks the implementation of all those opportunities which we believe exist today in the international arena.

Undoubtedly, the further progress of perestroyka will open up new perspectives for foreign policy.

Well, there is a most direct link between it and the domestic policy. Our main goal is to create the most favorable external conditions to accomplish internal perestroyka. Diplomacy works for perestroyka; perestroyka and its authority and prestige work for diplomacy. The renovation processes taking place in our country make our partners in international dialogue more receptive to new thinking, to Soviet foreign policy initiatives.

Now about the impact of foreign policy on domestic affairs. It is in the interests of the people and perestroyka to see the entrenchment of such principles as the supremacy of law and the matching of internal laws with international ones, in general the building of a law-ruled state and integration in the world economic system. This applies to international cooperation in human rights, ecology, safe operation of atomic power stations.

The more durable the peace, the higher the threshold of the country's security. By encouraging the building of new international relations, we create a comfortable atmosphere that is required to accomplish positive internal shifts.

[Correspondent]: One of the speakers at the session of the Supreme Soviet suggested that the so-called "political"

ministries, and the Ministry of Foreign Affairs in the first place, be taken out of government and made subordinate directly to the Supreme Soviet because "political problems are not coordinated within the framework of the Council of Ministers". What do you think about this idea? What influence does the Council of Ministers have on the work of your Ministry?

[Shevardnadze]: We touch upon the organic link between the "internal" and "external" here. I'm convinced that whatever the reason, the "partition" of the Council of Ministers would not serve the right cause. As a matter of fact, we tackle many issues related to our country's foreign policy activities, together with other ministries and agencies. What we need is a greater coordination and uniformity of action. The Ministry of Foreign Affairs is an organ of executive power and therefore should remain within its system.

[Correspondent]: MFA representatives working in different countries of the world constantly come across interesting political, cultural and economic experience of other nations. Quite often this experience is of great interest to our country as well. The diplomats whose job is known to involve the study of the country where they are stationed summarize the political, economic and social foreign experience. But these materials seem to get shelved in MFA offices. Under the conditions of democratization, this experience could be used in different areas of our national economy. What do you think about the possibility of the MFA making such a contribution to the solution of our internal problems?

[Shevardnadze]: We have performed even a structural restructuring towards this end. Soviet embassies are doing a great deal to collect, summarize and analyze the information about the political, social and economic experience of the countries they are stationed in. May I disagree with the claim that this information gathers dust in the deep MFA drawers.

Let me give you a few specific examples. While preparing the reform of the political system, the USSR MFA and its foreign organizations closely studied the experience of other countries at the request of our country's leadership, using, among other things, the materials received by the Embassies.

While getting ready for the CPSU Central Committee plenum on nationalities, we are taking a look at the foreign experience in the field of international relations.

We scrutinize the structural shifts in the development of advanced technologies. The economic information received by the embassies is communicated without fail to respective ministries and agencies.

As the pioneers of converting the military industry, we nevertheless closely follow the world trends in this area. And ecology, of course, is our top priority in mastering advanced foreign experience. We have a great deal to learn here especially as far as the development and implementation of "clean" waste-free technologies and the energy and resource-saving equipment.

[Correspondent] How can our foreign policy put to real work such fundamental principles, striking root now in the practice of international relations, as the priority of humanistic values, equality and freedom of choice, a balance of interests?

[Shervanadze] Your question invites serious thoughts. I do not think that some general principles should or could be automatically applied to various spheres, each of which has its objective specific features. One should remain loyal everywhere to the proclaimed values and ideals and allow no deviation from them both inside and outside the country. Say, working for an international dialogue, turn it down in domestic life. Or to abide by the rules of international law and trample upon our own laws. To speak about the equality of peoples in different countries and ignore this demand in one's own country. To proceed from the balance of interests in the international arena and ignore the interests of one group of the population or another at home.

I would have acted against my own consciousness in saying that everything is irreproachable with us in this sense. But perestroika is overcoming - and has overcome already - many of such "discrepancies" and the movement towards the desired harmony will be more irreversible as we go ahead.

Interview was conducted by L. Chernenko

#### Petrovskiy Foresees Enhanced Role for International Law

90U10051A Moscow SOVETSKAYA KULTURA in Russian 14 Oct 89 p 9

[Interview with Vladimir Fedorovich Petrovskiy, deputy minister, USSR Ministry of Foreign Affairs, by Edgar Cheporov, correspondent: "The Law and Politics: A Timely Interview"]

[Text] That is precisely the way it should be—first law, then politics. Law must have priority over political conduct by states. International law must stem from ideas common to all mankind concerning justice; it must be the quintessence of the historical experience gained in building peaceful relations. Nowadays this idea is finding increasingly greater recognition by the world community. The Non-Alignment Movement has set forth the following initiative—to proclaim the 1990's as the Decade of International Law. Problems of the relations between the law and politics, as well as the role of law in establishing a new, peaceful climate in international affairs are being discussed at the 44th Session of the UN General Assembly, which recently opened in New York. The Soviet Union proceeds from the position that a broad, frank exchange of opinions regarding these problems should assist in enhancing the role of law in international relations. It was precisely with this goal in mind that the USSR delegation submitted for the UN's attention a memorandum entitled "On Enhancing the Role of International Law."

Concerning the place occupied by law in international relations, Edgar Cheporov, a correspondent for the APN

[Novosti Press Agency] and SOVETSKAYA KULTURA, conducted the following interview with V. Petrovskiy, deputy minister, USSR Ministry of Foreign Affairs.

[E. Cheporov] Vladimir Fedorovich, in your opinion, is there historical logic in the fact that it is specifically now, during the period when the "new thinking" is emerging, that the role of the law in international life is becoming more and more important, is attracting public attention, and is evoking discussion within the United Nations?

[V. Petrovskiy] Yes, there is undoubtedly such a logic. These problems have now advanced to the forefront at the UN. I see in this the result of mankind's recognition that it is approaching a kind of milestone in its own development, a large-scale milestone. History has entered upon a new period of peace; moreover, the very status of peace is finding characteristics different than the previous ones. Formerly, peace meant merely the absence of war, but during the new period peace will also be characterized by an absence of the threat of using force, as well as by a powerful development of inter-state relations along with ties between organizations and individuals.

One of the natural opponents of this new peace will be the law. We are entering upon a period whereby the international community is becoming organized as a legal community of states. The law must be freed of strata left over from the "cold war." It must be transformed from a means of "servicing" the foreign policy of states and blocs, from a method of justifying itself or, to take the reverse side of the coin, of casting blame on others, into an inalienable "attribute" of our civilization. It is only law and order, along with the self-restraint imposed by international law, which is capable of ensuring the positive evolution of peace and preserving its stability.

The life and development of the world community must be governed and regulated. This leads us to a new opinion on the role of multi-faceted forums as organs of self-government for mankind. During the last few years we have become witnesses to and participants in an extraordinarily remarkable process—the formation of a universal consensus regarding the UN's role in supporting planetary law and order, based on the UN Charter.

The increasing keen interest in law is organically linked with the world-wide process of a movement toward a new status for the entire international system—a harmonization of universal and national interests. Under the conditions whereby the public consciousness is possessed by the ideas of the commonality of the destinies of the peoples, whereby we can see more and more distinctly the interdependence of the present-day world—and this is also a legal interdependence—new and extremely important possibilities are opening up for the legal regulation of international relations.

[E. Cheporov] And so the world community is demonstrating an increasing interest in working together creatively. What was it which facilitated the emergence of this tendency?

[V. Petrovskiy] It was prepared for by objective processes—by the technological revolution and by complex, economic relations, as well as by the new thinking in politics. The world has become interdependent. This interdependence is also being implemented by subjective factors. The objective processes must find reflection in actions by the states.

It would be only fair to note that the first country which posed the question that in politics we cannot fail to take all these diverse changes into account, that politics must be conducted in accordance with the objective realities, was the Soviet Union. In April 1985 the USSR proclaimed the principles of the new political thinking. Let me emphasize right here and now that the ideas of such thinking were already "in the air"; they had been prepared by outstanding representatives of science and culture.

The need to work together creatively gave birth to the tendency toward harmonizing universal and national interests, toward integration. Nowadays more and more persons are coming to understand that the future of our fragile world depends on the extent to which the actions of states and peoples will be coordinated.

[E. Cheporov] What are the most characteristic examples of creative cooperation among states and peoples, of their integration?

[V. Petrovskiy] This is shown most vividly, I think, by the tendency toward integration and the desire on the part of the European states to live "in one house." We will soon see a different Western Europe, one which will be free of borders. Integration-type processes are also occurring in various regions of Asia. On a global scale this tendency manifests itself in the solidarity and consolidation of efforts by states in various spheres of activity.

The Soviet-French idea of a "unified legal space" seems fruitful to me. What does it mean? What we are talking about are the prospects for the creation by all the participating states in a general-European process—as well as the United States and Canada—of a space where unified norms of law and legislation would be applied.

Within the framework of the General European Meeting in Vienna, agreement has been reached in principle concerning the obligatory involvement of a third party when disputes between states cannot be regulated by other peaceful means. At its last session, the UN General Assembly adopted a declaration regarding the prevention and elimination of disputes and situations which could threaten international peace and security, as well as the UN's role in this field. It likewise achieved a number of agreements in principle aimed at settling regional conflicts, at strengthening the legal system as applied to transnational problems of the present day—ecology, counteraction against terrorism, and the fight against illegal drug trafficking.

[E. Cheporov] What is the situation with regard to bilateral interactions between states?

[V. Petrovskiy] Bilateral interaction has also found a legal essence. This has been manifested in the establishment of permanent working mechanisms for conducting a dialogue on juridical issues with France and the FRG. At the recent meeting between the foreign ministers of the USSR and the United States a working document was adopted; it is entitled "Mutually Acceptable Conditions Pertaining to the Recognition of Jurisdiction by the UN International Court." It is directed to the foreign ministers of the other states which are permanent members of the Security Council and contains a proposal to conduct a five-sided exchange of opinions for the purpose of working out a general agreement on the matter in question. Thus, the foundation has been laid for the practical implementation of the proposal which we set forth from the UN rostrum in 1988 with regard to working out mutually agreed-upon conditions for the recognition by all states of the international court's jurisdiction.

Of course, there are no grounds for any extra-special euphoria. The international community has only just embarked upon the path to a new, genuinely legal world. The successes along this path will also depend upon our common efforts and upon the policies adopted by each country.

[E. Cheporov] The Soviet Union has drawn the UN's attention to a memorandum entitled "On Enhancing the Role of International Law." In setting it forth, the Soviet delegation proceeded from the concept that the UN's efforts are needed to work out an integral, international strategy for affirming the primacy of the law in inter-state relations. What are the principal characteristics of our memorandum?

[V. Petrovskiy] We are convinced that, in the matter of constructing a new model of international security, we must make the transition from a deterrence by weapons to a political-legal deterrence. The most important requirement for an international-legal strategy, as contained in this memorandum, is strengthening the existing guarantees and creating new ones against evasions and avoidances of international law, guarantees providing for a broader and fuller utilization of the monitoring-implementation mechanisms. What the memorandum has in mind here is forming an infra-structure of trust. The Soviet Union ascribes fundamental importance to the transition from individual measures of trust, openness, and glasnost in international affairs to a global policy of openness, a policy which would become a part of an all-encompassing security and international peace.

A second element of the international-legal strategy is strengthening the procedures and mechanisms for the peaceful resolution of disputes. This memorandum sets forth specific proposals encompassing the entire process—from prevention and the early discovery of a dispute to early disclosure of information about it, and the establishment of the facts prior to its juridical solution. The inclusion of the international court within this scheme again confirms the Soviet Union's fundamental turn toward utilizing third-party arbitration. We are convinced

of the fact that, as things move along toward an all-encompassing security, the role to be played by the court will increase. I would also like to note that it was the USSR which began the process of removing the stipulations made previously with regard to a whole series of agreements on the mandatory turning over of disputes to the international court. As a first step, the stipulations regarding agreements in the field of human rights were removed.

A third element in the strategy of affirming law and order is overcoming one-sidedness in interpreting the commonly accepted principles of international law and working out its integral interpretation in the interests of all mankind. As proposed to the international community in the speech made to the UN by M.S. Gorbachev, the idea of achieving a commonly shared understanding of the norms of international law is being transformed into specific agreements and is stimulating the solution of timely problems, including those involving bilateral relations. And, finally, the fourth element: the development of international law. Let me remind you about the USSR memorandum entitled "On the Development of International Law," as submitted to the 41st Session of the UN General Assembly. In our opinion, it can prove to be useful for working out a program for such development.

Thus, our memorandum develops a philosophy of law stemming from the essence of the new political thinking.

[E. Cheporov] Nowadays from the rostrum of the UN and from the rostrums of other important forums more and more frequent mention is being made of the importance of preventive diplomacy. What kind of conflict is the latter supposed to avert?

[V. Petrovskiy] Today a situation has evolved such that there is virtually no conflict in the world which could not be the subject of negotiations, which would not be at a stage of possible solution, that is, included among the active mechanisms of crisis-type diplomacy. But now the public is more and more concerned with the problem of how not to allow conflicts and crises to occur and how to do this by means of their early prevention at the stage when they first arise.

[E. Cheporov] You mean, a kind of rapid reaction to crises?

[V. Petrovskiy] Yes, a rapid and effective reaction. And one more important circumstance in the present debates. The questions of utilizing the mechanism of preventive diplomacy have now been placed on an all-encompassing foundation. I'm speaking about the application of the devices and methods of such diplomacy not only to solve the traditional conflicts and crises connected with the military and political relations between states, but also to situations which can arise in connection with an ecological or even an economic threat. It has been proposed that we set up an early-warning system in the ecological sphere as well. It is not by chance that a great deal of support was received in the UN for the idea stated by M.S. Gorbachev of establishing an International Center for Ecological Assistance.

[E. Cheporov] Work is proceeding in the USSR with respect to democratizing our domestic legislation, on transforming our society into one which is genuinely based on the rule of law. Wherein, to your way of thinking, can be traced the link between these processes and the Soviet Union's aspiration to enhance the role of law in international relations?

[V. Petrovskiy] The concept of the supremacy of the law was adopted by the USSR's highest organ of power—the Congress of People's Deputies—and has been adopted as the foundation of the Soviet state's foreign-policy strategy. While operating simultaneously in all directions—military-political, socioeconomic, and ecological, the international community must solve all problems by political means, by relying on the law, developing the law, and strengthening the legal foundations of international contacts.

By forming a state governed by law in our own country, we are proceeding on the assumption that primacy in solving all problems must pertain to international obligations. We are keying our own domestic processes on the international obligations which have been adopted by us; they are functioning in the role of a unique kind of standards to which our domestic legislation has been catching up in the process of perestroika. We are attempting to bring our legislation and practice into line with international norms, to achieve a commensurate quality of the transformations taking place in our country in the political, cultural, economic, and other spheres with those of the world-level experience. Examples of this are furnished by our adoption of the obligations with regard to the Helsinki Concluding Act and those of the Vienna Agreements. All this is in our interests and the interests of the international community.

[E. Cheporov] In your own speeches at the UN you have, on more than one occasion, spoken about the moral foundations of politics. As everyone knows, history is replete with examples of political immorality. What, to your way of thinking, allows us to rely on the possibility of affirming the principles of morality in present-day international relations? Are such hopes realistic?

[V. Petrovskiy] Over the course of many centuries politics has been condemned for having diverged from morality, while, at the same time, high moral guidelines were always set for politics.

Today, in my opinion, a unique moment has arrived, one during which we can finally solve the problem of coordinating morality and politics because the world is coming to accept a system of universal values, such values as would be the same for states with differing systems and which would be accepted by the entire international community. The principles of international law must be created by our common efforts. Of course, this is a complex problem. But there are possibilities for solving it. I am convinced that literature and art, as well as world culture in general, play an enormous role in creating a state governed by law and in affirming the principles of morality. Under present-day conditions it functions as a spiritual guarantee that the path of morality and politics shall not diverge and that a reliable legal foundation shall be established for preserving peace.

**Vernon Walter on Confidence-Building, 'New Thinking'**

18070361 Kiev PRAVDA UKRAINY in Russian,  
10 Sep 89 p 3

[Report by Yu. Ovsyannikov, correspondent of PRAVDA UKRAINY, on statements by Vernon Walters, U.S. ambassador to the FRG, at press conference in Kiev; first two paragraphs are PRAVDA UKRAINY introduction]

[Text] A United Nations seminar on multilateral measures to strengthen confidence and to prevent war took place in Kiev during 4-7 September. It was organized within the framework of the Worldwide Campaign for Disarmament on the initiative of the UkrSSR. The participants—prominent political and public figures, scholars, diplomats, and military experts from more than 20 countries of the world—conducted a rich and useful exchange of opinions and ideas.

In the course of the Kiev forum, there were a number of briefings and press conferences. We invite the attention of the readers to the observations of our correspondent about one of the meetings in the press center of the seminar, when Vernon Walters, the ambassador of the United States in the FRG answered the questions of Kiev journalists.

"You can get anywhere if you know how to use your tongue"—almost at the beginning of the meeting Mr Walters cited this well-known proverb of ours, as if inviting those who were interviewing him to ask questions more actively. And he forestalled his judgments and statements by expressing satisfaction with the brilliantly organized seminar in the capital of the UkrSSR and thanked the Soviet organizers for the hospitality. And he said further:

"I think that the subject of our seminar, which is related to the problems of preventing the danger of war and measures to lower the risk of the development of nuclear war, attracts all. The interested discussion of these problems is conducive to the guarantee of an atmosphere of openness."

The interested discussion. . . . Precisely it, in the estimation of V. Walters, prevailed at the seminar. Answering the question of the correspondent of Ukrainian radio on the stages of the discussions, the interlocutor said that he came to the press conference directly from the regular plenary session of the seminar, where the speech of a Soviet expert was heard. The ambassador remarked: What he heard in the Soviet speech was very interesting, it touched on questions of the realization of measures of inter-state confidence.

A curious detail: The present diplomatic status of Vernon Walters was preceded in its time by the post of deputy director of the CIA. He has behind him also the skills of the work as permanent representative of the United States at the United Nations. Taking into account these facts, I would like to explain how the life and official experience of the interlocutor is linked with the dictates of the new political thinking, which our country has introduced into international affairs. For this reason I asked:

"... Your understanding, Mr Walters, of the new political thinking? What is your, so to speak, personal formula on this account?"

"First of all, I recall that I am the ambassador of the United States in the Federal Republic of Germany. And the Germans have the following saying: Ambassadors who become involved in the internal affairs of other countries very quickly cease to be ambassadors. . . .

But I want to continue the answer. The new political thinking, restructuring, glasnost', and democratization in the USSR and everything connected with these concepts are concrete reality, which have already involved changes in the character (oblik) of the world. And the changes, large credit for which, I repeat, belongs to your country, are continuing. The United States are in favor of the development of the favorable trends.

And I will name another very important factor of the new political thinking. It is the fact that in both of our countries the stereotypes of "the image of the enemy" are being destroyed," Walters continued.

It goes without saying realistic statements of that sort add optimism in the vision of international relations. However, the interlocutor himself extremely emotionally noted:

"Just to think! Soviet inspectors in the state of Utah are now observing an American military plant. And inspectors from the United States have visited missile bases in the USSR. Now the NATO and War Pact blocs are exchanging information about maneuvers, drills, and large troop movements. Three years ago, this information was completely secret."

"Thus, the times are changing. Do you believe that the "Cold War" has completely departed?" a lady journalist from RADYANSKOI UKRAINNI was curious about the view of the ambassador.

"If the USSR and the United States will continue to act in the same spirit as is being done today, then I will answer your question positively. But for this, we have to continue to work in the indicated direction. Neither the United States nor the Soviet Union is interested in the "Cold War." It costs too much money. And, indeed, we have things to spend funds on. Is that not so?"

Why, both we Soviet people and the Americans will, of course, find something much more justifiable to spend money on. Moreover, even in the sphere of the development of our mutually useful collaboration new necessary directions may develop. An example? It showed up when Walters, as the former deputy director of the CIA, was asked, it would seem, a question that was "out of bounds." Concerning the possibility of "cooperation" between the CIA and the KGB.

"Such a thing is possible in something," was the answer. "For example, in problems of the struggle against drug addiction or terrorism. . . . The Chinese have a proverb: A thousand mile journey begins with the first step. I named

spheres for you in which cooperation of the special services of our countries is both possible and feasible."

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In the end, the discussion turned again to Kiev and the Kievites. . . . I shall permit myself here to shift the chronology and cite a detail about which the interlocutor talked earlier.

Our guest was talking near the hotel with a Kievite who, like he himself, was already no longer young. It turned out: Both were participants in the Second World War. "We arrived at the conclusion that old warriors understand each other best of all. We were wounded in the battles. . . . In short, veterans more acutely than others know and remember the price of war."

With this statement, I will end my notes.

**Argentina's Foreign Minister Interviewed**

90U10066 Moscow ZA RUBEZHOM in  
Russian No 41, 6-12 Oct 89 pp 2-3

[Interview by APN Buenos Aires correspondent Hernando Clemans for ZA RUBEZHOM: "Domingo Felipe Cavallo, Argentinian Minister of Foreign Affairs and Culture: Coinciding Views on Peace and Cooperation"; date and place of interview not given]

[Text] "Argentina and the USSR share a common aspiration to cooperate in strengthening the climate of detente and collaboration that has expanded in recent years. We have established excellent relations between our countries, to which we attach great importance," pronounced the minister.

Q: So can we talk about similar approaches to global and common problems of mankind, especially those within the competence of the United Nations?

A: It is very important that both countries allot the United Nations the role of a forum where the many troublesome issues and conflicts we have in the world can be resolved. In our opinion, it is essential to strengthen international organizations in general. We feel it is imperative that we work toward them playing an ever expanding role. Alas, in recent years we have seen something very different in practice. But we are united with the Soviet Union in our belief that strengthening the United Nations is a long-term trend and in our desire to draw the entire world community into its development.

Q: Do you think that the recent summit in Belgrade of nonaligned countries can serve as an example for solidifying this trend?

A: The final document approved by the heads of states and government of nonaligned nations attests to the fact that the Nonaligned Movement is adaptable to the changes in economics and politics going on in the world. The document reflects the support of the nonaligned nations for, and their desire to facilitate, the consolidation of the climate of detente and international cooperation characteristic of the modern world. In particular, Argentine president Carlos Menem spoke in Belgrade about a united world, not three. At present, of course, this is not yet a reality, but it could be a possibility if the activities of formerly antagonistic blocs, like the nonaligned nations, were directed at greater integration and joint action for the good of the world and mankind.

Q: Is the Nonaligned Movement capable of making a practical contribution to the matter of resolving global and regional problems?

A: Like the United Nations, the Nonaligned Movement does not possess the operative mechanisms for the practical solution of the numerous problems affecting mankind, but it does have an effect on the consciousness of peoples and their governments, it does facilitate the formation of world public opinion in favor of the peaceful

resolution of conflicts, and with its ideas makes a contribution of principle toward resolving economic problems such as foreign debt.

Without a doubt, historical circumstances have brought the struggle for independence and decolonization to the forefront of the Nonaligned Movement's activities, but this task is gradually losing its importance because all that remains of the system of colonialism are ruins and among them, the object of our greatest concern, Great Britain's occupation of our Malvinian Islands.

Q: The USSR has always had a high regard for the initiatives of the Group of Six directed toward detente. As one of its founders, does Argentina foresee new steps in this direction?

A: We feel that the Group of Six has made a contribution toward the cause of detente, conciliation, and disarmament, which is advancing successfully. Recently Argentina came out in support of initiatives proposed, in particular, by Peru and Venezuela, on creating groups for coordinating activities within the framework of South-South relations as well as North-South talks. We suggested that they take up economic and social problems, which are now provoking the chief concern, rather than specific issues of peace and disarmament.

Q: Can we expect the Group of Six meeting in October in Lima to propose a joint strategic initiative on solving the foreign debt problem?

A: Without a doubt, foreign debt remains one of the foremost concerns of the countries that make up the Group of Six, each of which has a large debt, which places substantial limitations on their economic and social development. At the meeting in Peru there will be an attempt undertaken to progress in a substantial way toward solving this problem.

Q: Will other critical Latin America problems, such as the situation in Panama, be discussed?

A: The Latin American countries want to keep the current situation in Panama from growing into a conflict fraught with U.S. intervention in the internal affairs of that state. It is in this direction that we are now working, so that the Panamanians have the opportunity, through free elections, to form a government that reflects their will.

We feel that the U.S. position on Panama—mainly during the administration of President Reagan—was mistaken.

Q: The Soviet Union supports the initiatives directed at nuclear disarmament and the demilitarization of the South Atlantic. Might these initiatives find official support from the Argentinian government?

A: We would like to direct our efforts toward nuclear disarmament of the South Atlantic and turn that region into a zone of peace. This goal can be achieved only given the political will of all interested sides. We would like, through talks with Great Britain, to attain a dismantling of all today's military objectives, although we hope that that country has not yet placed missiles with nuclear warheads

or analogous weaponry of mass annihilation in the South Atlantic. We wish to eliminate the very possibility of placing this type of weaponry in the future. But this question can be resolved only with the support of all sides.

Q: Do you feel that the upcoming Argentine-British meeting in Madrid on 17 October is capable of opening up possibilities for a political solution to the Malvinas problem and thus join the new general tendency for resolving regional conflicts by peaceful means?

A: Precisely. We are in favor of applying the same principles that have been affirmed in various parts of the world for resolving armed conflicts. We do not have to go far for an example—in Central America, in Nicaragua. There are a variety of other examples where serious conflicts have proved amenable to resolution by means of negotiation and to avoiding the risk of armed conflict.

Q: Now let us turn to the bilateral economic relations between Argentina and the USSR. . . .

A: We know that our trade relations, unfortunately, are by no means balanced, but are now in our favor. An explanation? In Argentina there is a very low level of capitalization, and it is on this count that we could achieve an even higher level of import of goods from the Soviet Union. But insofar as our economy since stabilization has begun to grow, we think that more balanced and, therefore, more long-term trade relations can be established. We consider elevated levels of trade collaboration with the USSR, including capitalization, both possible and desirable.

Q: How are the processes of economic, political, and social renewal now going on in the USSR regarded in Argentina?

A: As a very heartening and promising phenomenon which will facilitate improved relations between East and West, between socialist and capitalist countries, as well as the Western democratic states. Thus, this process has evoked great interest. It is, of course, not ensured against dangers, since any process of change provokes internal and external resistance. We see confirmation of this in the Soviet Union, in China, in certain other socialist states, as well as in our own country. Strong resistance to changes exist, therefore it is important that a society encountering difficulties possess a will to change that takes into account its own experience and especially that these changes take a direction that eases mutual understanding between peoples. For example, in the economic sphere. I think that the socialist countries' greater use of the market and market mechanisms will allow them to integrate successfully into the world economy, where trade, capitalization, technology transfer, and so forth, will be more fruitful and will serve all of mankind, thereby putting off the danger of nuclear insanity.

**New Colombian Ambassador to USSR Interviewed**  
90UI0002 Moscow *IZVESTIYA* in Russian, 30 Sep 89  
Morning Edition p 6

[ Interview by A. Kuvshinnikov with Gilermo Plasas Alcid: "Do Not Judge Columbia by Drug Mafia"]

[Text] The new Columbian Ambassador to the USSR, Gilermo PLASAS ALCID, began to perform his functions a few days ago. He granted his first interview to an *IZVESTIYA* correspondent.

[Correspondent]: Mr. Ambassador, the news from Columbia has again made frontpage headlines in many newspapers. And again this is tragic news about the clash between the government and drug mafia. I regret that developments make me open our conversation with this subject, painful for you, but it cannot be ignored. Even more so since Columbia is primarily associated with the drug mafia in our country as well.

[Ambassador]: You are not the only ones to perceive Columbia this way. I know from my own experience that in Europe they often fail to tell the difference between one Latin American country and another. They single out occasionally Cuba for Senor Castro and Brazil for Senor Pele. Well, and Columbia too...

But my home country is just a victim of the drug mafia. It bears no responsibility for the emergence of this monster. Coca has been an inalienable part of Indian culture for millennia in South America. And it did not create any problems. Columbia was not the place to discover the chemical process for obtaining cocaine. Incidentally, Columbia does not produce a single required chemical substance even now.

Our country has become a battlefield again now. There is no doubt that Columbia is suffering the greatest losses in its fight against the drug mafia. But we shall not yield. What else can we do beyond what we have done already? What other victim has to be sacrificed if a Minister of Justice, the entire Supreme Court and State Council, dozens of journalists, hundreds of judges and over thousand policemen have been killed in just a few past years? It is absolutely essential for Columbia to have the international community display active solidarity with the battle against the drug mafia that we are waging now. We shall not win if we fight on our own.

[Correspondent]: Our country has no drug mafia, but it has the drug problem and organized crime in other forms. Since it employs universal methods of action, the experience gained by Columbia law enforcement agencies would be very useful for us. What do you think about Soviet criminal officers doing their internships in Columbia, for example?

[Ambassador]: There is no doubt that joint support in fighting against organized crime can serve as a factor bringing our two countries closer together. The drug mafia's strength lies in its ramified international networks, in a never-ending search for new sources of raw materials and new markets for ready products. Not a single country, therefore, should view itself lying beyond the sphere of the drug mafia's interests.

As to Columbia experience... We do have things to share. We abundantly paid for it with blood and tears...

I would think that the most horrible consequence of the drug mafia's penetration of the social fabric of society is a complete collapse of the judicial system. As an outsider, you are hard put to realize what it means to live without trust in the law. It is not a matter of the cowardice of judges or police or their penchant for bribes. How can one require a person to be brave or honest if he is defenseless against an inevitable bloody revenge for displaying these traits? There are no doors that the drug mafia's huge money would not knock at, and no doors can withstand them in general.

I held the position of the Minister of Justice from 1988 till July 1989. This is not a long period of time, but my nerve-wracking work required tremendous effort. Well, as an insider, I would like to warn you to guarantee the inviolability of the judicial system at any cost. It is very vulnerable. But it is impossible to fight organized crime without it. One should take immediate and drastic action. It may be too late tomorrow. It may be too late tonight. You said there was no drug mafia in your country. Do not delude yourself if it is invisible. The drug mafia is not an open-air circus that announces its arrival with colorful posters, trumpets and fireworks. It devours society from the inside on the sly. The front looks intact, but any moment - smack - and only rubble is left.

[Correspondent]: Mr. Ambassador, you and I met more than once in Columbia where I worked for several years. And I'm grateful for your making me see that country for what it is - a land of rich culture, dynamic economy and firm democratic traditions...

[Ambassador]: I'm sorry for interrupting you but this is very important. I would like to appeal to your readers. Under no circumstance judge Columbia by its drug mafia. Columbia is significantly more than just the drug mafia. It has a dynamic economy, one of the most stable in South America. It has the most advanced textile industry if you apply the most strict international criteria. It manufactures modern-day printing equipment. It has highly advanced agriculture. It has an ancient and undying culture.

It is likely that a galaxy of outstanding cultural figures that made Columbia famous all over the world came to life as a response of an innately healthy society to what was destined to become the scourge of fighting the drug mafia, as a self-realization that a nation must possess in order not to lose confidence in itself. Once again, I apologize for the interruption...

[Correspondent]: Well, Mr. Ambassador, we seem to have all that is needed to establish active contacts between our countries in the most diverse fields. But what is happening in reality? Soviet-Colombian relations were established more than half a century ago and, frankly speaking, our countries passed that mark without any tangible results. What is the matter?

[Ambassador]: What you are saying is absolutely right. We have maintained our relations for 50 years, but the concrete results we have achieved in trade, economic, or

scientific and technical cooperation fall very short of the expectations we had when we established relations.

I must say in all fairness that cultural and educational contacts proved to be very fruitful. Hundreds of experts in most diverse areas received higher education in Soviet Universities. Many of them occupy top positions at different levels in the public and private sectors. A major hydro power station was built in the Uila department. Its manager is a graduate of Patrice Lumumba Friendship University. The head of the health administration in the same department received his education in Moscow as well. Also the head of the major administration in the Ministry of Public Works and Transport. There are many graduates of Soviet institutes among the musicians and teachers, including those in universities.

But why has not the potential for cooperation been tapped in other areas? The blame falls on both sides.

Prejudice against the USSR as a Communist country is a definite barrier which existed until very recently and which has not been overcome even today. It was manifest most actively not among the ruling circles but among the population, ordinary Colombians who did not want to have any close contacts with the socialist countries. In peoples' minds, the Soviet Embassy or Trade Representation was firmly associated with an advance unit of world Communism infringing on the country's state institutions and its democratic system, with a group of saboteurs trying to undermine political stability in Columbia.

I know that this sounds absurd from your point of view. But put yourself in the shoes of a person living in a country whose government has been forced for decades to conduct an armed struggle against subversive groups which self-styled themselves Marxist-Leninist, without any good reason for the most part. And although not a single shred of evidence exists to prove that the Soviet Union or any other socialist country rendered any help to these groups, they fell under the shadow of distrust anyway.

But the times are changing. A very large, 42-member delegation of the National Federation of Colombian Entrepreneurs (FENALCO) visited the USSR very recently. Just imagine that it send a letter of invitation to President Gorbachev to attend the conference of entrepreneurs of the Western Hemisphere that is to take place in the Colombian city of Cartahena at the end of October.

I want to emphasize again and again how significant this fact is. The independent and very influential association of private entrepreneurs from the private sector of the Columbian economy took the initiative, entirely on its own, to invite the head of a socialist country to its major function. I'm fascinated that some people in my country stretched out their hands to shake hands with you, thus overcoming deep-seated stereotypes.

To be realistic, it is unlikely that President Gorbachev, a statesman with such a tight schedule, would be able to find time to accept the invitation. But if Mr. Gorbachev could find at least five minutes to record a few words of welcome on a video tape...Believe me, this is really very, very

important. We badly need a gesture of reciprocal interest, a gesture of support, a gesture to encourage the so far timid steps in your direction that we are taking. Such a gesture will undoubtedly prompt South American entrepreneurs to come up with new initiatives...

For example, in business circles, there is a great interest in establishing contacts with the upcoming new economic

sector in your country, which we tentatively call "private" for our purposes. We envisage an unlimited field of opportunities and are prepared to roll up our sleeves to break this virgin ground. Perestroika opens up new horizons in Soviet-Colombian relations. Together with you, we are prepared to move along towards them - and beyond.

The interview was conducted by A. Kuvshinnikov

### Poor Results of Foreign Economic Relations Analyzed

18250204 Moscow *PLANOVYE KHOZYAYSTVO* in Russian No 8, Aug 89 pp 39-45

[Article by doctor of economic sciences O. Rybakov: "On the Foreign Economic Relations of the USSR"]

[Text] Problems concerning the development of foreign economic relations have recently attracted considerable attention. There are several reasons for this. The new foreign policy line of the Soviet Union is aimed at undertaking a variety of measures for disarmament, for broad international cooperation in all areas of human endeavor, and for the active inclusion of countries into global economic relations. All of this has created fundamentally new opportunities for foreign economic cooperation. One should also note that many business circles of the West have been demonstrating a constructive approach toward this kind of cooperation.

On the other hand, our foreign economic relations have been rather substantially criticized<sup>1</sup> (particularly at the USSR Congress of People's Deputies), primarily from the viewpoint of the part played by those relations in the development of the national economy. In that connection, suggestions have been made to the effect that we should make much larger purchases of foreign modern equipment and technology, and particularly of consumer goods (given the catastrophic state of our domestic market). True, there are various ways of accomplishing this. There have been calls for purchasing consumer goods on the basis of foreign credit (in the form an emergency measure required to save economy reforms)<sup>2</sup>. A lot is justifiably being said about the need of radical change in our import structure in general whereby purchases of consumer goods would replace the purchase of many types of capital equipment and those items that would not be essential in the immediate future.<sup>3</sup> The import of grain has been severely censured.

There is no question that are grounds for being dissatisfied with the state of the USSR's foreign economic relations. One should note that there have been recent radical changes in the country's management of these relations that have largely overtaken the restructuring of the economic machinery as a whole. Thus, legal and administrative conditions have been created to enable various departments, enterprises, and associations to participate actively in foreign markets. Beginning April 1, 1989 such participation will be granted to all organizations, including the cooperatives. There has been serious and rather interesting discussions about the problem of the Soviet ruble's convertibility, foreign currency stocks and bonds, marketing, the creation of special economic zones, and much more. The country has now registered more than 5,000 participants in foreign commercial activity, approximately 460 joint ventures (in the USSR) have been instituted, and 2,000 agreements on direct ties with our partners from the CEMA member nations have been negotiated.

The question now arises as to why have all of these administrative measures thus far failed to yield adequate results? Actually, foreign trade in the Soviet Union, as before, accounts for a very small proportion of the national income, a total of only 6%, whereas this figure is 20% in a number of the developed capitalist countries, particularly in Europe. Moreover, our foreign trade turnover has even started to decline: In comparison to 1985, 1988 exports (in current prices) fell by 7.6%, and imports decreased by 6.3%. The proportion of USSR trade in world commerce which currently amounts to less than 4% in no way corresponds to our economic potential. Likewise one cannot escape the question as to why there is no improvement in the structure of Soviet exports in which machinery, equipment, and vehicles account for 15% of total exports (whereas that figure is only 3% in the capitalist countries). We obtain our primary foreign currency funds from the sale of oil and gas abroad in spite of the fact that the world prices for those products have significantly dropped in the recent past.

Why has there not been any realization of our hopes that by giving independence to the ministries and particularly the associations (enterprises) to participate in the foreign markets they would be motivated to increase their exports; or, perhaps this is just a temporary phenomenon? For the time being one must very the insuperable desire both on the part of the primary labor collectives and the departments to import goods, but without much zeal to export. Moreover, this has been a breakdown in the order of export deliveries and the quality of exported goods has deteriorated in some areas. And, just how rational is the structure of import procedures, including those at the governmental level? For example, the country has been purchasing large quantities of feed grains. This is substantiated by agricultural requirements. No one can deny that is a stern necessity, but does it not dissuade us from thinking about the fact that perhaps it would be more profitable for us to buy meat until such time as we can satisfy our own needs?

All of these questions are not just troubling in themselves. Unless they are solved there can be no further development of the country's foreign economic ties. The payments relationships of the Soviet Union can no longer be balanced without drawing upon foreign credits, among other things because of the fall in prices for fuel and raw material resources. N. I. Ryzhkov at the Congress of People's Deputies cited several instances on this account. The losses incurred by the USSR in the last three years alone because of the drop in world prices for oil and petroleum products was approximately 25 billion rubles in freely convertible currency. This acutely exacerbated an already stressful situation in the balance of payments. The USSR today has a hard currency debt of 34 billion rubles (this is more 50 billion dollars at the official exchange rate), i.e., more than twice the annual income derived from our exports and services. The income received from our petroleum sales no longer is sufficient to cover the interest on our debts. But the country continues to take on short-term loans in increasingly larger amounts. Consequently, we have crossed the "red line" which limits our payments for

paying off credits to 25% of our hard currency income, and this threatens the country's economic security.

Also important is the fact that our potential, and particularly our export potential cannot as yet provide for the appropriate economic fulfillment of the Soviet Union's major international initiatives, such as the building of a "common European household," USSR participation in international economic organizations, and the formation of a common market for the CEMA countries. Apparently, the foreign economic policy reforms being carried out in the country that have fundamentally restructured the administrative structure and organization of such relations have not yet touched upon the deep-rooted processes in this sphere.

The first thing I would like to focus on is the attitude of planning organizations, ministries, and managerial organs toward the country's participation in the international division of labor, and particularly that which is long-term and planned in an orderly fashion. Foreign economic relations as a constantly operative factor of national economic growth is not yet taken seriously in the elaboration of any plans or major programs for resolving any particular economic problem.

The driving force behind our foreign trade today is the purchase of products without which the country cannot yet manage or the equipment and raw materials required for their manufacture. For example, the shortage of chemical products has made it necessary to purchase equipment for the construction of huge chemical plants. Short falls in our grain harvest means the increased purchases of that product. The hard currency required for those purchases must be earned by expanded petroleum and gas sales. All of that is understandable, and today is probably largely justified. But when it comes to deciding which products we should be purchasing over the long term as long as the manufacture of such goods in our country would be unprofitable, and which products we should sell so that we can plan such production as a special export sector of the national economy, unfortunately, we have not yet given any serious thought to these questions nor have we drawn up any estimates for future planning. Of course, if there is any possibility to completely eliminate or at least reduce the purchase of certain groups of goods, then we might be able to curtail the sale of petroleum which is in short supply in our own country. But this is an approach from the viewpoint of eliminating the current disbalance in the national economy, but not one that means greater efficiency in our foreign economic relations. The task of the future is to learn how to sell more than we buy. Moreover that problem is not only an economic one but a psychological one as well.

The economically substantiated broad participation of the USSR in the international division of labor is a topic of today's agenda. We would like our country to take a worthy place in global economic relations. In order to do this we must have our own contemporary specialized list of exports and create an appropriate export base.

Quite a few decisions have been made in this area. However, there have been no practical results yet. The country's previous export base was developed spontaneously and consisted of fuel and raw material goods that were in demand in the world markets (primarily petroleum which accounts for 21.6% of our exports). But another factor goes into the concept of an export base, and that is primarily a number of machine-building sectors that permanently manufacture high quality and competitive products for export. Thus far, we do not have such sectors, I emphasize sectors, and not individual plants<sup>4</sup>. Moreover, as can be seen from the statistical data of recent years, goods in the refinery industry sectors have accounted for a reduced proportion of our exports. Thus, whereas machine-building articles accounted for 21.5% of all Soviet exports in 1970, in 1985 they only accounted for 13.6%, i.e., we are even losing the few positions we previously had in world markets. Therefore, no matter how much we talk about the unsoundness and unprofitability of exporting raw materials, so far we have nothing to offer as substitutes. Whether or not we want to reduce the deliveries of such materials, doing so would reduce our foreign trade turnover.

There have been an increasing number of rather irate articles in recent newspaper and magazine issues that criticize the planning and foreign trade authorities for their "squandering" of the country's petroleum resources. We are also opposed to covering the country's balance of payments through the primary export of oil. This theme was also sounded at the Congress of People's Deputies of the USSR. The essence of the views expressed there can be generally summarized as follows: the country's oil reserves are limited and the cost of producing oil is becoming increasingly expensive but we have been thoughtlessly exporting almost 150 million tons. But surely the science of economics maintains that the greater a product needs to be processed and the more the amount of labor is needed for its production, the more advantageous is it to sell the product. Here is our bad luck: the efficiency indicators (although extremely incomplete primarily because of the distorted prices) show that sometimes a higher degree of processing does not result in greater export efficiency but even reduces it. That is because productivity in the manufacture of many goods in our country is lower than the average world level, and by intensifying the processing of a primary natural product we "pile on" additional production costs that are not reflected in world prices. Exports become efficient only when the machinery or article is produced at the world average level of quality and production costs. And so far we have only a few such products.

The appraisal offered that today we can become a country of exporters requires not general debates but thorough economic calculations and substantiation primarily from the viewpoint of national economic efficiency. Take the question of selling oil. The assertions about "squandering" and "giving it away for nothing" are emotionally impressive. But calculations lead to another conclusion: We are not giving away oil but we are selling it, and selling it rather profitably at that. Thus, the domestic wholesale price of one ton of petroleum is 30 to 35 rubles<sup>5</sup>. We sell oil to the

socialist countries for about 100 to 130 rubles per ton (true, a reduction in price is slated for the immediate future which will further exacerbate our balance of payments with the CEMA European countries). Besides, one should remember that the exploitation and refining of oil within our country are poorly and inefficiently organized often bordering on scandalous mismanagement. Oil is burned as fuel at electric power stations, in boiler-houses, and in transport vehicles which is irrational in itself. Moreover, the domestic equipment (boilers and engines) which consumes oil often falls behind the quality of similar foreign equipment, and is wasteful in operation.

The hard currency earned for petroleum, including the oil sold to the socialist countries constitutes live, real money that can be immediately used to acquire necessary commodities (including consumer goods). Goods purchases in the socialist countries play quite an important role in our domestic assets—up to 40% for railroad cars, fishing and commercial fleet vessels, up to 50% for rolling equipment, up to 10 to 20% for consumer goods (shoe wear, clothing, furniture, etc.). It is difficult to imagine a situation in which it might be possible to decline such deliveries for a short period<sup>6</sup>.

From all that has been said above it follows that foreign trade effectiveness is a complex category that involves many factors. And only a careful weighing of all factors and detailed estimates can yield an objective appraisal as to the advantages or disadvantages of our foreign economic relations.

As regards to our trade relations with the European socialist CEMA countries, those relations are mutually advantageous. But the yield from those relations could be immeasurably greater if the structure of our domestic foreign trade turnover were more modernized. But this will be impossible to achieve without creating an appropriate export base, and without it any talk about improving the structure will remain dreams only. We now need a specific long-term program to develop such a base and not merely a conception of its formation (although everything begins a conception).

There are many obstacles on this path, including psychological ones. For a long time we were convinced that we could not make any differences between the quality of exported goods and the consumer goods used within the country. But that conviction was merely wishful thinking. The situation with respect to the quality of domestic goods in the country is far from good. In order to change the situation we must create a purely export industry (based both on domestic technological achievements and purchased licenses). The quality of these goods will be rigidly scrutinized on the foreign markets. And if those goods become competitive, then the achievements gained in the export industry (technology, machinery, organizational principles) should be efficiently and broadly applied to domestic needs. Of course, this is an exacting undertaking. But from the viewpoint of scientific and technological

achievements we have much to be proud of (their introduction is quite another thing). Joint ventures can be helpful in this matter.

Our import policy is in need of major adjustments. Here too new thinking is required. Let us return again to the opportunity of purchasing consumer goods on credit. Of course, the danger of that path is obvious. At the present time the country is short about 10 billion rubles of hard currency for purchasing essential goods and servicing our debt (interest payments), i.e., we need additional credit. To take this path, as would be the normal case, for a five-year plan period would simply be impossible. Even if we continue to obtain credit, the conditions under which they would be offered would become more rigid and we would be faced with the danger of becoming second-rate debtors. And this means even greater hard currency losses.

But our economic reform demands a starting push such as a one-year (or perhaps two-year) injection of imported consumer goods so that wages (money) can acquire an impact and becomes a material incentive. For a short period we should adopt unconventional and extraordinary measures such as a pronounced change in the import structure that favors consumer goods. This will help to improve the social mood which will facilitate the perestroika processes. Cost-accounting, contracting, leasing cannot be opened up completely if earned rubles remain "empty money with which little can be bought." The prestige of the ruble must be raised today. It will be difficult to proceed further without this.

Another problem is the purchase of machinery and new technology. This without question would be a correct path to take. But we are aware of the cost of thoughtless purchases of equipment (costing billions of rubles) that lies idle in waiting until an enterprise is built. Much idle machinery of this sort simply "does not survive." They become obsolescent or are physically destroyed. Thus, out of the 118 installation projects initiated last year that were equipped with imported equipment only 57 were put into operation and the cost of the uninstalled equipment purchased abroad grew to 578 million rubles. The fact of the matter is that the purchase of foreign technology requires more profound justification. This technology is the flesh and blood of the economy whence it came. It requires workers with a high degree of technical skill and specific materials and raw materials that qualitatively correspond to the production organization. As a rule, we cannot meet such requirements. And the purchased machinery not only operates poorly or sits idle but also drags us into supplemental hard currency expenditures.

A number of concepts and strategies have now been worked out for the USSR's foreign economic relations. But they seem to exist in isolation, as it were, and not been "built into" the total system of national economic planning. If one takes a look at the adopted strategy for the development of the USSR's foreign economic relations and the strategy for the development of an export base, then it is difficult not to agree with the general premises contained in them. At the same time they do not offer an

answer to the above-posed problems, and this in turn does not enable us to place our foreign trade on an advanced footing in the immediate future. Therefore, we need to do some fundamental thinking about of strategic directions that should be taken for the development of our foreign economic relations, and we need to undertake a decisive revitalization of documents and plans that account for the dictates of current circumstances.

The new thinking in our foreign policy, and building of a "common European home," and the normalization of global economic relations require us to make a radical change with respect to the Soviet Union's participation in the international socialist division of labor and the creation of a competitive export base. Then the USSR will have a much more solid position in its relations with international economic organizations (such as the International Monetary Fund, the International Bank for Reconstruction and Development, GATT, etc.).

One more group of problems that must be resolved is the restructuring of the system for managing foreign economic relations in the USSR. Much has already been done and there have been indisputable changes in both the lower and higher echelons of administration. The State Foreign Economic Commission of the USSR Council of Ministers was organized in 1986, and somewhat later the USSR Ministry of Foreign Trade and the State Committee for Foreign Economic Relations (GKES) were joined into a unified USSR Ministry of Foreign Economic Relations, and there has been a restructuring in the activity of many other central and industrial sector offices associated in one way or another with the administration of our foreign economic relations (The Industry-Trade Chamber of the USSR, customs services, etc.). But the most significant changes have occurred at the level of the ministries and particularly the enterprises, organizations, and cooperatives which have gained the right to trade independently in the foreign markets (on the basis of hard currency self-repayment).

However, one can confirm that the restructuring of foreign economic relations management in the USSR as a whole has not gone beyond the framework of organizational and legal measures. The broad participation of industrial ministries and departments, enterprises, and associations has not yet strengthened the "push" for exports. As has been the case previously, the central focus of participants in our foreign economic relations is placed on imports. Direct relations between enterprises of the socialist countries have not yet developed into broad industrial cooperation and in many instances are limited to one-time contracts or exchanges of experience. Considerable difficulties are being experienced by joint ventures as well due to red tap in resolving problems concerned with material-technical supply and commodity sales. The development of new forms of foreign economic cooperation is being retarded by distorted pricing, the non-convertibility of the ruble and its unjustified hard currency exchange rate. The actions by Soviet enterprises on foreign markets that are not always skillfully executed have resulted in price losses and low efficiency in foreign trade operations. Additional

adverse experiences include the low efficiency of meeting delivery dates and what is at times irresponsible attitudes shown by ministries and departments toward negotiated agreements with foreign partners. In general the improvement in the management mechanism must be continued.

I would like to touch upon another fundamental question. The granting of maximum freedom to the basic industrial and trade enterprises to trade in the foreign markets makes it essential to organize those ties and to undertake specific measures for the state regulation of foreign economic activity (this has been justified and generally accepted worldwide). But in our opinion, we have not yet succeeded in finding the "golden" mean between these tendencies.

In accordance with a decree of the USSR Council of Ministers we now have an established procedure for licensing operations in foreign economic relations. The USSR Ministry of Foreign Economic Relations, the industrial ministries and departments have been given the right to license any particular type of foreign trade activity as along as such operations (or export of goods) do not constitute the exclusive interest of the state. In essence, they acquired the opportunity to influence the activity of enterprises and organizations that wish to participate in the processing and exporting of raw materials which the departments themselves cannot effectively use. For example, the list of licensed goods included scrap metal, waste paper, fur pelts, wild animals and fowl, wild plants, etc. The situation becomes even more complex when licensing and fixing quotas are extended to the activity of joint enterprises, international associations and organizations thereby clearly restraining their initiative.

Many specialists believe that a more justified procedure would entrust the granting of export-import licenses to an authority that is not engaged in commercial or economic activity. Such an authority should be free of any departmental interests and be able to review questions from an exclusively national viewpoint. Otherwise, whether we wish it or not, departmental monopolization will result.

The ban placed on many participants in foreign economic relations (particularly cooperatives) to engage in mediation is fully justified. This creates a barrier against those who try to derive income that is not connected with productive activity. Barter transactions between enterprises and their foreign partners are also prohibited without special permission, and this too has its good reasons. But, on the other hand, this has seriously impeded the development of direct production ties between the USSR and other socialist countries.

We are still looking for optimal variations in the establishment of foreign economic relations procedures. Such a search is accompanied by its own "sounding out" methods of variable means. A maximum democratization of this sphere too is desirable. But, in our opinion, there are constantly attempts to over organize that sphere of activity which might be explained as a fear of "uncontrolled processes." At the same time life itself urges us to extend

the rights and opportunities to participate in foreign economic activity not only to enterprises, associations, and organizations, but to union republics, territories, and oblasts.

The problem of fulfilling accepted obligations in the foreign economic sphere warrants our most serious attention. There are obligations undertaken by enterprises, but there are also obligations undertaken by the state. It is apparent now that no obligations of any kind on behalf of the state will be accepted without the approval (ratification) of the USSR Supreme Soviet. This requires a more thorough refinement of questions concerned with the economic effectiveness of any foreign economic transaction.

But as long as obligations are accepted, they must be fulfilled. In order to accomplish that we must design and implement a mechanism which would allow the state to guide such processes. For surely there can be obligations that are important from a national viewpoint, but contradict the immediate economic interests of an exporter enterprise. This requires a state order and an economic incentive for the supplier so that the delivery of goods will be advantageous (in any case no less advantageous than could be offered under any other variations). This situation is recognized by everyone, but for some reason it has not yet been embodied into the economic mechanism.

The improvement in the management of foreign economic relations in the USSR is closely tied to the restructuring of the forms and methods of cooperation with the socialist states which account for more than one-half of the country's total foreign trade turnover. Cooperation with the fraternal countries is of priority significance in our foreign economic strategy. That cooperation is economically advantageous. There is probably no need to justify in detail the importance the Soviet Union attaches to the delivery of machinery, equipment, consumer goods, and foodstuffs from the CEMA countries. This has already been done by many authors. It is clear that our economy could not manage at the present stage without the import of such goods. In addition, economic integration within the CEMA framework opens up new possibilities for the mutually beneficial consolidation of efforts in the development of modern industries on the basis of intensified production specialization and cooperation and the joint assimilation of advanced scientific and technological achievements. There are enormous untapped opportunities in this area.

In accordance with an agreement reached at a conference of fraternal party leaders from the CEMA member countries in 1986, a new model of socialist economic integration is being developed based on ideas of a combined market of the CEMA countries. A number of various approaches that might be taken toward the creation of such a market were elucidated in the course of the conference. This is objectively associated with the differences that exist in the economic reforms and the variable degree of the domestic markets' development in the individual countries. As a whole, two directions are being examined. The first is connected with the transition to the broadest

market relationships, and the second is associated with the retention of an inter-state level of agreements and trade relations on some particular scale that would be based on planned commodity contingents.

Under such conditions the attempts to work out any excessively rigid uniform integration model for all of the CEMA countries could hardly be successful, in our opinion. What we need is a more flexible, mobile mechanism within whose framework any country could find a suitable form of cooperation. Such a pluralistic model would not dissociate the countries (divide them into countries interested or uninterested in creating a joint socialist market), but create the basis for mutually advantageous cooperation.

We perceive the general features of the new model of integration in the following way: There are two interconnected blocks of cooperation. The first entails mutual activity on the basis of inter-state agreements, contingents of mutual deliveries approved at the inter-governmental level, mutually coordinated clearing estimates, major joint construction projects financed by the state. Of course the relations between the partners must be balanced. One would suppose that any balance of settlements that might occur for whatever reason should be paid off in free currency or hard currency commodities. And the estimates themselves could be transferred (wherever the partners are willing) to world prices where free currency would be used.

The second block entails the development of relationships on the level of national and joint enterprises (associations, firms), direct ties, etc. Freedom must be accorded to the production links not only in determining the area of cooperation but in price formation, delivery of goods, credits, and other financial questions. The use of national or free currency (at the choice of the partners) could be used in the estimates. Naturally, under these conditions there would be a growing need to create an appropriate banking system, including joint banks through which the settlements would be processed on the basis of the gradual convertibility of national currencies. The banks would have the obligation for the overall balancing of operations as a whole for this block of cooperation, let us say, through the exchange-sale of national currencies. Moreover, one should not attempt to evade the realistic currency exchange rates nor the solution of a number of other currency and credit problems. Conditions for the gradual transition to a socialist consolidated market.

The complex of problems related to the development of the USSR's foreign economic relations is exceptionally large. Many of those problems are closely tied to domestic economic reforms. The successive resolution of those problems would increase the contribution made by this exceptionally important sphere of the national economy to the resolution of difficult and vitally important problems in the restructuring of the Soviet economy.

## Footnotes

1. We do not believe it is necessary here to dwell on those viewpoint that generally express doubts about the need for foreign economic contacts. There is not a single country in the world today that can prosper without broad international cooperation. Otherwise it would stand the risk of remaining on the sidelines of global scientific and technological progress.

2. See: Address of N. P. Shmelev at the USSR Congress of People's Deputies, PRAVDA, June 9, 1989.

3. We know that at the present time the country has on hand five billion rubles worth of uninstalled imported equipment.

4. Of course, one can claim that some types of Soviet tractors are proving to be successful abroad, that a number of countries are willingly purchasing our Lada automobile (although at rather low prices), and we have built many power plant installations in developing countries. But all of these constitute just a few examples that do not yield a substantial quantity of hard currency.

5. It is recognized that it does not cover all expenditures (taking due account of expenses for geological survey and the exploitation of new oil fields that are not easily accessible).

6. Sometimes there are claims that get into the press to the effect that certain commodities, such as sugar in Cuba, are being purchased from the fraternal countries at unjustifiably high prices, and moreover for free-floating currency. In the first place, Cuban sugar is imported not by the payment of hard currency but by clearing and in exchange for Soviet goods, primarily machinery and equipment. We are hardly able to acquire four million tons of sugar in other countries since this would really require free currency which we don't have.

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## Cooperatives' Foreign Trade Activities

18250196 Moscow KHOZYAYSTVO I PRAVO in  
Russian No 5, May 89 pp 35-45

[Article by S. Ryabikov, Candidate of Juridical Sciences, Deputy Chief of the USSR Ministry of Foreign Economic Relations' Treaty and Legal Main Administration: "Cooperatives' Foreign Trade Activities"]

[Text] The regulations governing cooperatives' foreign economic activities are laid down primarily by Art. 28 of the Law on Cooperatives in the USSR,<sup>1</sup> as well as by the USSR Council of Ministers Resolution No. 1405 "On Further Developing the Foreign Economic Activities of State, Cooperative, and Other Public Enterprises, Associations, and Organizations"<sup>2</sup> of December 2, 1988, and Resolution No. 203 "On Measures of State Regulation of Foreign Economic Activities"<sup>3</sup> of March 7, 1989. In engaging in such activities, cooperatives must also adhere to a number of other normative acts.

It should be pointed out that, with the exception of certain distinctive features, the regulations governing the foreign economic activities of cooperatives are analogous to those established in this sphere for state enterprises and organizations.

**Cooperatives That May Enter the Foreign Market.** As of April 1, 1989, in accordance with point two of Resolution No. 1405, the right to enter the foreign market was granted to all cooperatives that are engaged in production activity and whose output (work, services) is competitive on that market.

To which what cooperatives does this apply? Art. 3 of the law distinguishes two basic types of cooperatives: production cooperatives, which can engage in foreign-economic activities, and consumers' cooperatives, which do not have this right. At the same time, it is stipulated that consumers' cooperatives can also develop production activity. In this case, they become mixed-type cooperatives, and as such, one must suppose, they also have the right to enter the foreign market. We are led to this conclusion by Art. 40 of Resolution No. 1405, which states that the provisions of that document relating to production cooperatives also apply to all cooperatives engaging in production activity.

The criterion for granting the right to engage in export and import operations to cooperatives is production by them of output (work, services) that is competitive on the foreign market. It would appear that this criterion can be validated only in practice. Moreover, there is no single foreign market. There are markets for specific countries and goods with their own distinctive features. For this reason, the requirement of competitiveness is, in my view, of a declarative nature and provides a guideline for cooperatives.

The right to engage in foreign economic activities is also enjoyed by unions (associations) of cooperatives that engage in production activity.

**Regulations Governing Export and Import Operations.** Cooperatives can engage in these activities in two ways: either directly, by creating, when necessary, cost-accounting foreign trade firms for this purpose, or on a contractual basis via other foreign-economic organizations.

In selecting one of these options, cooperatives are guided by purely economic considerations. Instances in which they engage in export and import operations directly without creating such firms under themselves (if, for example, their foreign economic activities are not of a permanent nature but sporadic) are not ruled out. Such a decision is not at variance with Soviet legislation.

If a cooperative needs to create a foreign-trade firm, it could, it seems, use for this purpose the Model Statute on the Cost-Accounting Foreign-Trade Firm of a Research-and-Production Or Production Association, Enterprise, or Organization.<sup>4</sup> It need only bear in mind that under legislation, such a firm is not, as a rule, a legal entity, and that the cooperative will be liable for its actions.

The second way of engaging in export and import operations presupposes the following. A cooperative concludes

with some foreign economic organization an authorization agreement, under which the organization, on the cooperative's behalf, concludes a foreign trade contact with a foreign partner for the export or import of the needed goods. Under this arrangement, the authorization agreement stipulates that the cooperative will make a commission payment, in an established or agreed-upon amount, to the foreign economic organization. Relations between the aforementioned parties will be governed by the **Basic Terms Regulating Contractual Relations In Export and Import Operations**.<sup>5</sup>

**Principles Governing Foreign Economic Activities.** Among these principles, we should call attention first of all to the requirement of foreign currency cost recovery and self-financing. This requirement is based on the proposition that profits from foreign economic activities remain with the cooperative; however, the cooperative uses its foreign currency funds to compensate for any losses. Point seven of Art. 28 of the law stipulates that cooperatives and their unions (associations) bear economic liability for the effectiveness of their foreign economic activities and for the rational use of foreign currency funds in the interests of production. They compensate for losses, in the event they fail to meet their obligations, with all their property, including the foreign currency funds, and they also pay fines and other sanctions to the foreign customer in foreign currency from their own foreign currency accumulations, provided they are at fault for the breach. In this same connection, point two of Resolution No. 1405 stipulates that the state is not liable for cooperatives' obligations.

**Form of and Regulations Governing the Signing of Foreign Trade Transactions (Contracts).** In engaging in foreign economic operations, cooperatives must adhere to provisions of Soviet legislation regarding the form of and regulations governing the signing of foreign trade transactions.

Under Art. 125 of the Basic Principles of Civil Legislation (henceforth referred to as the **Basic Principles**) and Art. 565 of the RSFSR Civil Code, the form of foreign trade transactions effected by Soviet organizations and the procedure for signing them, regardless of where they are concluded (in the USSR or abroad), are established by USSR legislation. Observance of these requirements is a mandatory condition whereby the Soviet state, by virtue of its monopoly on foreign economic activities, grants the right to conclude such transactions to Soviet organizations.

The USSR Council of Ministers' Resolution No. 122, "On the Procedure For Signing Foreign Trade Transactions," of February 14, 1978,<sup>6</sup> establishes the general rule that such transactions are signed, for the Soviet side, by two persons: the director of the organization (or his deputy) and a person so empowered by power of attorney, or by two persons so empowered. All appendices, additions to, or changes in the contracts are signed in the same manner. If these requirements are violated, the foreign trade transaction is deemed invalid, in accordance with Art. 45 of the RSFSR Civil Code.

**Regime for Foreign Economic Activity.** In order for a given cooperative to have the right to engage in export and import operations, it is advisable that the cooperative include a provision to this effect in the object and aims of its activities specified in its charter.

The fact is that the magnitude of a cooperative's civil legal capacity as a legal entity is determined by the aims of its activities (Art. 12 of the **Basic Principles**, Art. 26 of the RSFSR Civil Code). The cooperative's charter should therefore specify that it engages in foreign economic activities with respect to the output (work, services) it produces.

In addition, it should be borne in mind that the USSR Council of Ministers' State Foreign Economic Commission (hereafter, the SFEC) is empowered to halt cooperatives' export and import operations in the event they engage in foreign economic activities in violation of their chartered civil legal capacity.

Cooperatives that would like to exercise their right to enter the foreign market directly must without fail register with the USSR Minister of Foreign Economic Relations (hereafter, the USSR MFER), including through its representatives at the local level.

Such registration includes the submission by the cooperative of a properly completed registration card; the USSR MFER's assignment of a registration number to the cooperative and the recording of that number in the officially published State Register of Participants In Foreign Economic Relations; and the issuance of a registration certificate to the cooperative.

In accordance with point four of Resolution No. 1405, cooperatives can forward for export any output (work, services) they produce, with the exception of certain types, a list of which is drawn up by the USSR Council of Ministers. Resolution No. 203 stipulates that cooperatives cannot, among other things, export arms and ammunition; precious metals and stones and items made out of them; toxins; narcotic and psychotropic agents; works of art of significant value; and so forth.

The law (point three, Art. 28) also specifies what goods cooperatives are empowered to buy on an import basis. They include equipment, raw materials, materials, and other goods (work, services) essential for developing production, increasing trade turnover, and strengthening the material and technical facilities of the social and cultural sphere. Cooperatives buy these goods using both their own foreign currency funds obtained from export operations and borrowed funds. For this purpose, the USSR Bank for Foreign Economic Activity is authorized to provide cooperatives with bank credits in an amount of up to 5 million rubles in foreign currency.

A list of output (work, services) whose import is prohibited is drawn up by the USSR Council of Ministers. It too is determined by and largely coincides with the aforementioned list of goods whose export from the USSR is prohibited.

It must be borne in mind that, in accordance with Resolution No. 203, cooperatives can export only output (work, services) that they themselves produce. They are forbidden to buy up goods in order to resell them as exports and to import goods for subsequent resale in the USSR. Nor do they have the right to serve as intermediaries in foreign economic operations as a type of activity.

In addition, USSR Council of Ministers Resolution No. 1468 of December 29, 1988, "On Regulating Certain Types of Cooperatives' Activities In Accordance With the Law on Cooperatives in the USSR," establishes a list of types of activity in which cooperatives are not entitled to engage (Supplement No. 1). Among other things, the list prohibits them from engaging in foreign economic activities involving the production, exchange, sale, rental, or public showing of film and video products, and from engaging in all types of operations involving foreign currency cash. Viewing Supplement No. 1 as a whole, it can be concluded, in my view, that any type of activity specified therein, since it is prohibited for cooperatives inside the country, is obviously impossible for them in the foreign economic sphere as well.

It must also be kept in mind that Supplement No. 1 of the aforementioned resolution contains a list of types of activity in which cooperatives have the right to engage only on the basis of agreements concluded with enterprises, organizations, and institutions for which these types of activity are primary. Also mentioned here is such foreign economic activities as facilitating the organization of foreign tourism. Where this activity is concerned, cooperatives must conclude agreements with the All-Union Inturist Joint-Stock Society and the Sputnik Bureau of International Youth Tourism.

In engaging in export and import operations, cooperatives should know that the USSR MFER has the right, with the consent of the SFEC, to introduce, for certain periods, licensing and the setting of quotas for exports and imports of certain goods, types of services, and countries or groups of countries, when this is required by the state of the balance of payments or other economic and political conditions. In such situations the cooperative will have to obtain a special license.

Licensing is a requirement for all goods that, in Resolution No. 203, are included in the list of output (work, services) whose export and import in 1989 and 1990 is carried out under licenses issued by the appropriate USSR ministries and agencies and by union-republic Councils of Ministers.

In special cases, the SFEC can restrict exports and imports by imposing quantitative or value quotas. All transactions subject to such quotas require licensing.

When shipping goods across the USSR state border, cooperatives are obliged to declare them by presenting a freight customs declaration of the proper type to USSR customs agencies. In the event such a declaration is absent or the established declaration procedure is violated, the goods to be exported or imported will not be allowed to cross the border.

In engaging in foreign economic activity, cooperatives must remember that such activity must not lead to unscrupulous competition or harm the interests of the state. In such cases, the SFEC will halt the export-import operations in question.

Resolution No. 1405 provides for the creation of a system for insuring the commercial risks of Soviet exporters, including the commercial risks of cooperatives, when engaging in operations on the foreign market. In this connection, it should be pointed out that Soviet foreign economic organizations ordinarily use insurance to insure the safety of foreign trade cargo, civil liability to third persons, and foreign currency risk. Obviously, this list can be expanded through the addition of types of insurance that are used in certain foreign countries but that are new for the USSR; these include the protection of exporters against the risk of nonpayment by foreign firms, the insurance of capital investments abroad, the insurance of export credits, and so forth.

**Foreign Currency and Financial Questions.** One of the economic methods that the state uses to regulate cooperatives' foreign economic activities is the establishment of normatives for foreign currency payments and of regulations governing foreign currency accounting and the formation of foreign currency funds.

For the period up to 1991, the normatives for payments to the state from cooperatives' foreign currency receipts have been set on the basis of normatives established for local-industry enterprises and for republic ministries and departments for payments to their foreign currency funds. However, in instances in which cooperatives are organized under enterprises, the normatives for their foreign currency payments are based on the normatives established for these enterprises. At the same time, it has been deemed necessary, beginning in 1991, to shift to the establishment of normatives for foreign currency payments to the state that are stable for a five-year period, normatives that will apply equally to cooperatives.

A cooperative can sell output of its choice through any foreign economic organization. Obviously, in order to ensure equal conditions and healthy competition among them, it is stipulated that normatives payments for cooperatives do not change depending on the foreign economic organization through which they export their output.

Payments to foreign currency funds from receipts from the export of goods (work, services), after payments to the state on the basis of the established normatives, are made by cooperatives using funds in their bank accounts, as payments are received from the foreign partner.

Resolution No. 1405 provides for the free exchange of monies in foreign-currency funds, and for the buying and selling of such monies for Soviet rubles at agreed-upon prices in foreign currency auctions that are to be organized by the USSR Bank for Foreign Economic Activity. All this will substantially broaden cooperatives' possibilities for attracting foreign currency funds.

Cooperatives can also form their own foreign currency funds, through contributions in foreign currency at the disposal of their members.

**Regulations Governing Direct Relations and Border Trade.** The law (points two and four of Art. 28) specifies in general form the right of cooperatives to develop scientific, technical, and production cooperation with appropriate enterprises and organizations of foreign countries and to engage in foreign trade operations involving border trade. At the same time, it is stipulated that cooperatives may exercise this right only in accordance with the established regulations.

Resolution No. 1405 (point 35) specifies these regulations. It says that cooperatives may engage in direct production and scientific-technical relations with enterprises and organizations of socialist countries, as well as in littoral and border trade with these countries, with the authorization of and in the procedure established by the Council of Ministers of a union republic that does not have provinces, by the Council of Ministers of an autonomous republic, by a kray or oblast soviet executive committee, and by the Moscow and Leningrad City Soviet Executive Committees (depending on the cooperative's location), with due regard for provisions in effect regarding the procedure for engaging in such relations.

With respect to direct relations, the agency that grants authorization to a cooperative must take into account first and foremost Resolution No. 992 of the CPSU Central Committee and USSR Council of Ministers of August 19, 1986, "On Measures to Improve the Management of Economic and Scientific-Technical Cooperation With Socialist Countries,"<sup>8</sup> as well as the Regulations Governing Direct Production and Scientific-Technical Relations Between USSR Associations, Enterprises, and Organizations and Enterprises and Organizations of Other CMEA Member Countries.<sup>9</sup>

In establishing direct relations with enterprises and organizations of any country, cooperatives must adhere to the USSR's appropriate bilateral intergovernmental agreement with that country. From 1986 to the present, the Soviet Union has concluded intergovernmental agreements on principles governing direct ties with nine socialist countries: the People's Republic of Bulgaria, the Hungarian People's Republic, the GDR, the Polish People's Republic, the SRV, the Mongolian People's Republic, the CSSR, the Republic of Cuba, and the Korean People's Democratic Republic.

Cooperation based on direct ties begins in the production sphere and ends in the turnover sphere. Several documents serving various purposes are concluded with the foreign partner.

Mutual relations between the participants in direct ties in the production sphere are usually codified by civil-law economic agreements on international production and scientific-technical cooperation. These agreements, as a rule, are of an organizational character and regulate such questions as the conduct of joint scientific-research,

project-design, and experimental work; the more effective use of enterprises' material resources; and so forth.

Cooperation between the participants in direct ties in the turnover sphere is based on foreign trade transactions (contracts), which stipulate reciprocal deliveries of cooperative output, the provision and leasing of instruments, machinery and equipment, and other foreign trade operations.

Contracts in many cases are concluded on the basis of economic agreements, and with the consent of the foreign partner, their terms can become a component part of such an agreement.

For purposes of more efficient exchange in direct ties, annual (global) contracts can be used. Such contracts specify an agreed-upon sum without indicating the specific list of reciprocally provided output and the prices for it; final accounts are settled by the end of the year. The terms of such contracts usually set deadlines and the procedure for regulating reciprocal accounts.

Direct ties in the foreign economic sphere also utilize ordinary sale and purchase contracts, as well as barter (goods exchange) contracts. In concluding contracts with enterprises and organizations of CMEA member countries, it is essential to adhere to multilateral documents that have been adopted by that organization regarding questions of goods deliveries and the performance of installation and technical maintenance of machinery and equipment. The use of these documents is mandatory.

As for littoral and border trade, such trade is regulated by a number of normative acts that have been adopted, as a rule, with respect to the carrying on of such trade by enterprises and organizations of specific USSR republics, krays, and oblasts with specific countries. The authorized agency will take these acts in account in establishing for cooperatives regulations governing such trade.

The USSR has intergovernmental agreements on border (littoral) trade with Iran (signed in 1967), the Korean People's Democratic Republic (1968), the Mongolian People's Republic (1974), Afghanistan (1981), Japan (1981), the PRC (1982), Sweden (1985), and Austria (1987). Cooperatives must adhere to these agreements in carrying on border (littoral) trade.

The direct exchange of goods and services in this type of trade is effected on the basis of contracts that stipulate the specific terms for the delivery of goods and rendering of services.

The law and Resolutions No. 1405 and No. 203 also regulate certain other questions of cooperatives' foreign economic activities, among them the procedure for the creation by cooperatives of joint enterprises and international associations and organizations, as well as cooperatives' participation in the activities of various foreign economic organizations (interbranch associations, consortiums, joint-stock societies, trading houses, and others).

## Footnotes

1. Hereafter, the law.
2. SP SSSR, 1989, No. 2, Art. 7. Hereafter, Resolution No. 1405.
3. Supplement to the journal VNESHNYAYA TORGOVLA [Foreign Trade], No. 3, 1989, pp. 10-17. Hereafter, Resolution No. 203.
4. Confirmed by USSR Council of Ministers Resolution No. 1526 of December 22, 1986. SP SSSR, 1987, No. 6, Art. 24.
5. Confirmed by USSR Council of Ministers Resolution No. 88 of July 25, 1988. SP SSSR, 1988, No. 24-25, Art. 70.
6. SP SSSR, 1978, No. 6, Art. 35.
7. SP SSSR, 1989, No. 4, Art. 12
8. See "Mekhanizm vnesheekonomiceskoy deyatelnosti [Mechanism of Foreign Economic Activity]. SBORNIK DOKUMENTOV. Moscow, Pravda, 1988, pp. 11-18.
9. Confirmed by the State Foreign Economic Commission on December 30, 1986, in effect with changes since July 10, 1987. The aforementioned SBORNIK, pp. 91-96.

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### Violations of Export-Import Licensing Procedures Reported

90UI0008 Moscow IZVESTIYA in Russian  
1 Oct 89 Morning Edition p 4

[Unattributed report: "At the USSR Ministry of Foreign Economic Relations"]

[Text] As has already been reported, the licensing of exports and imports of some types of products (operations, services) implemented for the purpose of state regulation of foreign economic ties while granting the right to foreign economic activity to a broad circle of Soviet state, cooperative and public organizations was instituted in the Soviet Union as of April 1 of this year.

As the first six months of the operating of the licensing system show, Soviet participants in foreign economic ties are basically filling out the appropriate licenses and submitting them at customs stations in timely fashion, providing for the unimpeded passage of their freight.

There are at the same time some instances of violations of the procedure for obtaining and submitting licenses, which are leading to disruptions in the operation of transport and border stations, disorganizing the activity of participants in foreign economic relations and having a negative effect on the delivery of national-economic freights and supplies for the population.

USSR MVES [Ministry of Foreign Economic Relations] points out that in the interest of ruling out similar

instances enterprises, organizations, production cooperatives and other Soviet organizations, in pursuing foreign economic operations, should be guided by the procedure for the import or export of individual products (operations, services) defined by USSR Council of Ministers Decree 203 of 7 Mar 89.

The decree stipulates that goods being imported or exported be passed by organs of state customs inspection across the state border of the USSR with the submitting of licenses by the Soviet importing or exporting organizations.

Licenses for the corresponding assortment of goods are issued by the ministries and agencies of the USSR and the councils of ministers of the union republics authorized to do so.

Shortages of those goods in the domestic market, quantitative limitations on exports set by the government of the USSR, the balance of payments with various countries and other factors are taken into account in issuing export licenses. Goods not subject to licensing are passed by customs without the submission of licenses.

Goods of nationwide significance as established in the lists appended to USSR Council of Ministers Decree 203 of 7 Mar 89 are subject to licensing in 1989-90.

Also included among them for exports, by resolution of the State Foreign Economic Commission of the USSR Council of Ministers, are:

—electric power; the construction and operation of facilities abroad, including deliveries of equipment, materials and constituent items for them; ship fuels, petroleum coke and combustible petroleum gases (propane, butane and isobutane); essential oils and synthetic aromatic substances; sheep intestines (bellies); operations with medals and coins made of precious metals, as well as other monetary tokens of pre-revolutionary, Soviet or foreign issue;

—consumer durables for which export quotas have been set by USSR Council of Ministers Directive 47 of 12 Jan 89 (refrigerators and household freezers, washing machines, color and black-and-white televisions, radios, household sewing machines, vacuum cleaners, clocks and clock works, passenger cars);

—all goods and services exported to North Korea.

All goods and services imported from Finland, Yugoslavia and Egypt are licensed.

The complete text of Decree 203 and the standard documents defining the procedure for filling out the applications and the issue of licenses have been published in the journal VNESHNYAYA TORGOVLYA issues 3 and 4, Foreign Economic Information Bulletins 34 and 35 and EKONOMICHESKAYA GAZETA No 14 for 1989.

USSR MVES is conducting this work both through its own central apparatus and through the authorized apparatus of the councils of ministers of the union republics and in the

krays and oblasts of the RSFSR, which have been supplied with equipment to provide a link with the ministry and automate the issuance of licenses, in the interest of the timely issue of licenses for goods and services in its product range across the territory of the USSR.

### Joint Venture, Marketing Strategies for Soviet Firms Recommended

90UI0009 Moscow *IZVESTIYA* in Russian 30 Sep 89  
Morning Edition p 6

[Article by Nina Bulon under the rubric "We and the World": "It's Not So Easy to Sell Sawdust—Reflections of a Western Specialist on Soviet Marketing and More"]

[Text] *Madame Bulon, Nina Vasilyevna Yevtushenko, is a citizen of France and the USSR. She is a specialist in electronic equipment and director of marketing for the major Franco-American company of Schlumberger.*

*She is in Moscow in the new role of "finder," a search person. This profession arose in the United States in the 1980s and has now moved on to Europe. The tasks of the "finder" are varied: find a sales market for certain products, help to select for procurement just what is needed at the optimal price, find applications for new types of products in existing fields, seek opportunities for creating new markets and the like. The work requires extensive commercial and technical knowledge, an ability to negotiate and work in several languages and constantly trace all innovations in science and technology and the possession of broad business contacts in various countries of the world.*

I do not want to lecture or criticize anyone. Almost everyone is doing that. I will simply try to relate what is happening today in the business world of the West and how I see business life here in the USSR. This will perhaps force many to look differently at the world of business with its difficulties and problems, where there exist classic patterns and knowledge but no obvious and ready solutions to all events in life.

The first principle of every enterprise is profitability as determined by market demand. No one will put out a product that cannot be sold at a profit. If a loom operates 24 hours a day and the receipts from the goods sold are only enough to pay for the electricity, the loom is halted and the director is dismissed.

Marketing exists in order to determine the products that will bring a profit. The people engaged in marketing study the market, i.e. the demand for the product, analyze specific types of products, compose technical specifications and bear responsibility for selling. How is all of that accomplished? Theory is taught at commercial schools, institutes and universities. Practice is taught at business schools and right at the firms.

It is unsafe and without promise to operate by guesswork, relying on intuition, random occurrence or non-professional consultation. Often the first thing that occurs to beginning business people at a cooperative or newly created foreign-trade firm at some enterprise in the USSR

is to sell the Western partner some by-product, say, a pile of sawdust, in exchange for computers. It seems to them that they need only find the money for a phone call to a furniture combine somewhere in France and suggest, "Buy sawdust from us," and the deal is done.

But such a call is money down the drain. People are very busy everywhere and will not come to you for sawdust. It is accepted in the world that the supplier finds the client and goes to see him himself. Finding a buyer is one of the most difficult operations for any Western firm.

An enterprise or organization that has obtained the right to foreign economic activity can in theory turn to the officials of the trade missions abroad. But I know from my own experience that they have neither the appropriate experience nor the capability of seriously seeking out partners in the business world at the request of the enterprise.

I was recently at one such mission. All that the two specialists considering proposals for collaboration from the Soviet Union were able to show me was a list of a few dozen enterprises that are seeking partners in the West. They could give me no locations for those enterprises, no description of their activity, no scale of production, that is, absolutely nothing essential for satisfying the minimal initial interest of a businessman. It is difficult for me to imagine at all how the small apparatus of a Soviet trade mission can assist a Soviet enterprise in orienting itself in the market. Especially if you assume that the flow of proposals and applications will grow to an avalanche—after all, tens of thousands of enterprises and organizations in the USSR have obtained the right to foreign economic activity.

You could say: then let's invite foreign entrepreneurs here and bring them to the mountain of sawdust—here, buy it. That is one way as well, of course, but where is the guarantee that he won't twist you around his finger? A reputable "finder" does not deceive a firm, his reputation is the dearest of all. Machinations here in the USSR have no effect on the reputation in the Western business world, while the Soviet business executives are unable to ascertain who they are dealing with; they are moreover often glad of any foreigner. In any event, rogues who know a little bit of Russian have already been dashing into the country from every corner of the world.

How does one act in the West when it is necessary to sell an enormous amount of diverse products, and not a mountain of sawdust? Simple goods are sold either through stores or through intermediaries, usually specializing in specific types of goods. Complex instruments and expensive equipment can be sold directly by commercial representatives or also by highly skilled intermediaries. All means are considered good ones. It is not the form of the sale that is important, but the very fact of it. The work of the commercial representative is very complicated. He never moves as part of a three-day delegation on a tourist routing. He travels alone, seeking meetings, offering samples and explaining the advantages of his product.

Sometimes the commercial representative is thrown out the door, but the next day he returns through the window with a smile and starts all over. Beginning business people do not live in magnificent hotels and do not eat caviar in Russian restaurants. Only those who bring great profits to the enterprise permit themselves that.

But it is not difficult just to sell. The notion that you can buy everything in the West is a clear delusion. It is just as difficult to make acquisitions as it is to make sales. It is, true, a problem of a different sort—the problem of selection. An announcement of large and expensive procurements is usually issued in the specialized press. Dozens of suppliers then rush to the buyer at once from all around the world. It is necessary to select from the mountain of proposals namely the one that you need and that you can afford. Marketing procurement, also taught in theory and in practice, enters into force here. Little is known of this profession in the Soviet Union. People often "latch on" to a single supplier for various reasons.

I was recently at a Moscow enterprise and saw how the people there set about testing electronic equipment acquired abroad. I understand something of this and began to explain—you have purchased obsolete gear, much more modern models exist. And I encountered unpleasantness, even hostility—my information was not needed and was inconvenient for these people.

Yes, the difficulties in the country are enormous, and I fear that soon they will not all be able to be surmounted. Neither Gorbachev nor anyone else can set everything up by the end of the fourth quarter of 1990. You simply have to set to work knowing in advance that there will be difficulties.

If the Soviet Union firmly intends to develop economic ties with the West and the world economy overall, they must learn business, learn it in massive fashion. Go to business school, prepare your own "finders"—you can't afford Western ones. They will teach you management, marketing, export-import and a multitude of other most complex things at business school.

I do not, by the way, recommend that you invite university professors—either Western or Soviet—as instructors. These people frequently teach models separated from reality. The chief benefit is from practitioners—commercial directors, specialists in import-export. Let the honoraria be large, these expenditures will be recouped: only the best practical specialist can teach you. The business schools should, in my opinion, be joint ventures overall. And Soviet business people must study languages seriously. The audience listens to the speaker without a translator in three languages at any business school in the world. Buy books on management with your pocket money while on foreign trips. Don't wait for the censor to verify whether you can read them, and put the special literature that becomes outdated by the moment of sale into broad circulation at fifty kopecks. Do not fear asking naive questions of your Western colleagues.

The country is facing the problem of information science. There are no ready prescriptions here. All available means are good: procurements within possible limits in the West, joint ventures at least for assembly at first, the conversion of some types of military enterprises to the computer business, duty-free imports by private individuals. Moreover, not only permit the import, but even guarantee the purchase from a citizen upon his arrival in the USSR, of a computer he brings in, and not with money but with prestige goods—be they a Zhiguli, a summer cottage etc. This is essentially the exchange of currency for rubles, and moreover with the acquisition of electronics, and that is very advantageous for the country. Only thus can the black market be gotten in hand.

There is another yawning gap that is no secret to anyone—the organization of finances. The banks need not only specialists, but also funds for automation and the introduction of electronic funds, that is, payments using plastic cards. Electronic money is developing 50 times faster than conventional. This money is easily monitored, and the opportunity arises of automatic processing of the data associated with monetary operations. A system of payments using plastic cards has currently been established in all of the highly developed countries and the countries of the Third World. The annual world income from this system totals almost 26 billion dollars.

In the USSR there is no such system even for foreigners coming to the country. There are enormous losses of the currency the country needs so much as a result. It is advantageous for business people to pay for all types of services using cards even at the maximum exchange rates, since their working time is valuable. I can, for instance, be connected by telephone with Paris from any corner of the planet in a few seconds. Here in Moscow I have to wait an hour and a half for a call from Paris. I cannot wait, I am ready to pay no small amount of currency for immediacy, but the Soviet state does not accept it. A paradox! Bank terminals, card-operated telephones, filling stations and the like, if they were installed, would bring a steady influx of currency to the USSR. As for the high cost of procuring the equipment, an electronic terminal pays for itself in 1.5 years, while any of the most efficient equipment in the world takes just 4-5 years. It is not difficult to figure the advantage. In the USSR a settled account reaches the addressee in 40 days, while around the world the maximum is 24 hours. A system of check payments that is outmoded in the majority of the developed countries has begun to be developed without electronic equipment in the USSR. The world was after all in a crisis situation with checks in the recent past: they can easily be forged, which causes an enormous number of swindles and mistrust among people.

And the last thing I wanted to say. Effectively no business meeting or worldly discussion takes place without the question of the attitude toward restructuring.

Like all of the business people of the West without exception, I raise both hands "in favor," that is why I am even here. A globalization of the world market is underway and

a United States of Europe is being created, and the fact that such an enormous country as the USSR is not taking part directly in this process is an anomaly.

Businessmen look on the USSR with purely human sympathy and wonder at the same time: perhaps a new and immense sales market is being opened up? I have a different attitude. I am not just working with various organizations such as the Higher Commercial School of the Foreign Trade Academy or the PRONTO Commercial-Engineering Center. I am spending a great deal of time with various people far from my business. I answer all of the "what," "why," "how" and "what for," because I have a chance to pass on knowledge that is lacking here, in my homeland, to people that I love.

#### Legislation on Joint Ventures, Trade Organizations Reviewed

18250198 Moscow *KHOZYAYSTVO I PRAVO* in Russian No 8, Aug 89 pp 89-96

[Article by M. Braginskiy, doctor of law, professor: "Ways of Improving the Legislation on Joint Organizations"]

[Text] The creation of economic formations with foreign participation—joint enterprises (JE) and organizations (JEO)—on the territory of the USSR practically began in 1987. During this short period, about 200 of them (primarily JE with the participation of Western capital) were formed in various sectors of the national economy. Thereby it was confirmed that the JEO can successfully blend in with the system of economic relations that is taking shape in our country.

The legal regulation of the creation and activity of the JEO takes its beginning from the same year 1987 when on one day an *Ukase* of the Presidium of the USSR Supreme Soviet and two extremely capacious government acts, which systematized the norms on JEO—the decrees of the USSR Council of Ministers of 13 Jan 1987 No 48 and 49 (*S[obranie] P[ostanovleniy] USSR*, 1987, No 8, Art 38; No 9, Art 40)—were published. The initial principles of these acts (such, in particular, as the recognition of organizations as juridical persons according to Soviet legislation, their corporative structure, economic independence, the granting of certain benefits, advantages, etc.) have undoubtedly preserved their significance. Subsequently changes were introduced into these acts by the decrees of the CPSU Central Committee of 17 September 1987 "On Additional Measures for the Improvement of Foreign Economic Activity in the New Conditions of Management" and of the USSR Council of Ministers of 2 December 1988 "On the Further Development of Foreign Economic Activity of State, Cooperative and Other Public Enterprises, Associations and Organizations." The last one of these acts expanded the possibilities of solving the most important questions connected with the creation and activity of the JEO. The sides were granted the right to agree among themselves to determine the dimensions of their shares in the capital stock, to form without any restrictions the composition of the higher and executive organ, to transfer their shares to JE, to conduct the

inspection of financial-economic activity, etc. This same decree expanded the tax and customs benefits of the JEO and its foreign participants, as well as granted the right to solve the questions of hiring and dismissal, to determine the forms and dimensions of wages and material incentive in rubles with respect to all workers.

The regulation of the regime of the participation of JEO in the civil revolution was promoted by the decree of the USSR Council of Ministers of 7 March 1989 No 203 "On Measures of State Regulation of Foreign Economic Activity," which fixed for those organizations the right of export only of the products (work, services) being produced by themselves only for their own needs. In order to conduct intermediary operations, it is necessary for them to obtain the permission of the USSR Ministry of Foreign Economic Relations. This act will be common for all participants in the revolution and will correspondingly be applied to joint collective formations, provided with the rights of a juridical person, regardless of whether only Soviet or simultaneously both Soviet and foreign organizations are taking part in them.

The enumerated and other supplementary laws introduced into the legislation on the JEO nevertheless did not solve all the problems related to the optimization of the conditions of their creation and activity.

#### Sources of Legal Regulation

The creation and activity of the JEO in the USSR are regulated in a differentiated manner, depending on precisely who is the partner of the Soviet participant—enterprises and associations of the CEMA member countries or firms of the capitalist and developing countries. True, decrees No 48 and No 49 to a significant degree coincided in terms of content. Their convergence was also promoted by the following acts, but nevertheless certain discrepancies in the legal regime of types of JEO were preserved. Since it is difficult to cite convincing explanations for this, we must reach the conclusion that it is necessary to replace the two key acts on the JEO with one.

It has also become urgently necessary to increase the level on which acts on the JEO are adopted. The creation of a legal base in the form of decrees of the USSR government were justified in their time, thereby the possibility was preserved to effectively introduce the changes that have proved themselves in practice into currently effective legislation. However, now the prerequisites are being created for the law to become the basic legal source here. This would make it possible to raise the authority of the norms being adopted and to guarantee their stability.

The goal that has been set can be attained through the adoption of at least two laws.

The first of them is a Law on Foreign Investments in the USSR. It seems that its content must be narrow and reduce itself to the determination of the procedure for the creation of JEO and the regulation of their external relations: With the state (mainly with the state treasury), as well as with the organizations which supply the JEO with material resources, carry out work and services in accordance with

their orders, or are consumers of their products, work, and services. We have in mind that the rights and obligations of the participants of the organization being created, the system and competence of its organ, as well as other relations that take shape within the framework of the JEO, will be regulated by another act—a Law on Associations and Joint Stock companies. This act will be common for all the participants in the revolution and correspondingly will be applied to joint collective formations that are provided with the rights of a juridical person, regardless of whether only Soviet or simultaneously both Soviet and foreign organizations take part in them.

However extensive the mass of special norms devoted to the JEO, their activity to a significant extent will be subjected to the general norms of Soviet civil law, the application of which to the JEO is accompanied by certain difficulties. It is well known that this branch of law consists of three groups of norms: Some of them extend to any property relations built on the principles of equality and the non-property relations connected with them, others—only to those in which citizens act, and the third—only to the relations between organizations. A positive answer to the question of the possibility of applying the norms of the first group to JEO and a negative one—to the second do not raise any doubts. The difficulties arise with respect to the third group. Part of the norms included in it reflect only the specific character of the organizations as collective formations that have been provided with civil legal personality. Since the indicated specific character is inherent also in the JEO, norms of that sort (the articles of the Fundamentals of Civil Legislation and the Civil Code devoted to legal persons may serve as an example) should be effective also with respect to JEO. At the same time, in the presence of the confirmation of a significant number of norms addressed to organizations, the legislator took into account that the property belonging to them is socialist property (on of its forms), and the organizations themselves take part in a single system of the national economy of the country. It goes without saying that part of Soviet legislation should not be applied to relations with participation of JEO.

To carry out a delimitation between two types of norms addressed to organizations is not always simple. Especially as the terminology the Fundamentals and the Civil Code are insufficiently stable and precise.

The simplest way out is to indicate in the norm itself whether it extends to JEO or not.

At the same time, it is expedient, in the course of the reform of the Fundamentals and the Civil Code, to include in them a general provision which extends the norms of civil legislation to relations with participation of JEO, except in cases where something different is directly provided in the law or contradicts the nature of the JEO.

**The Right of the Participants to Select the Model of the Association.** Article 11 of the Fundamentals establishes that, besides the legal persons directly named in it, "other organizations may be recognized in cases provided for by the legislation of the Union of Soviet Socialist Republics."

From the cited norm follows the inadmissibility of the creation of JEO on the basis of any other model than the one directly indicated in decrees No 48 and 49. As is well known, both of these acts provide for only one model of JEO—the one in which the participants do not bear responsibility for the debts of the organization or are responsible only within the limits of their investment. This construction satisfies the interests of the Soviet and foreign participants to the utmost degree because under it the risk connected with unfavorable results of the economic activity of JEO narrows. At the same time, the participants may develop the aspiration to create an association built in accordance with another model. The joint stock company offers the best possibility for this. The participants may express the desire to create a complete association where the participants are responsible for their debts with all of their property, or a limited partnership (in it a part of the participants are responsible with all the property belonging to them, but the others—only within the limits of their share).

The Law on associations should guarantee the participants in JEO the possibility of selecting any of the proposed selection of models.

#### Procedure Based on Permission or Without Prior Permission?

The decree of the USSR Council of Ministers of 2 December 1988 granted the right to state enterprises, associations, and organizations to take part in the decision on the creation of JEO with the consent of the higher organ of administration, and to production cooperatives—by consent with the Council of Ministers of the union republic that does not have an oblast division, the Council of Ministers of the autonomous republic, the Krayispolkom, the Oblispolkom, the Moscow Gorispolkom, and the Leningrad Gorispolkom—at the place where the cooperative is located, and for production cooperatives created attached to the enterprise (organization, institution)—by consent with the appropriate ministry (department). Such consent affirms the expediency of the participation of a given enterprise, association, organization (cooperative) in the JEO, but not the expediency of the creation of the JEO as such.

The method of formation of JEO that has taken shape is closest to the procedure based on prior permission. It hardly follows to preserve such an procedure. It provides insufficient guarantees of the interests of the union republic and the local organs. A paradoxical situation arises: In order for a state association to create a subordinated enterprise, let us say, in Moscow or in Samarkand, it is necessary to coordinate this question on a preliminary basis with the Moscow Gorispolkom or respectively with the UzSSR Council of Ministers, which, naturally, will take into account consideration of an ecological, economic, social, etc. character with respect to a given region. But if this same association wants to create a joint enterprise in the same cities, there was no need, until very recently, under any circumstances, to obtain the consent of republic (local) organs. True, the decree of 2 December

1988 introduced an exception from this rule, having indicated that the new construction or large-scale reconstruction during the creation of JEO are realized with the consent of the territorial organs. In the remaining cases, Soviet participants in JEO present only information to the territorial organs of administration. In our view, the extremely important supplement that has been cited does not solve the problem. In corroboration one can cite the following example: At the base of a completely harmless (ecologically clean) Soviet enterprise, a joint enterprise that is dangerous to the environment is being created without any kind of reconstruction. In this case, information will hardly be sufficient.

Moreover, preliminary consent imposes certain obligations on the corresponding organ. In any case, it cannot subsequently avoid the guarantee of the normal activity of the JEO. The difference between the procedure based on permission and the procedure without prior permission thus expresses itself in the fact that, in the first case, the most important questions of the activity of the JEO are decided by the competent organs prior to the creation of the JEO, and in the second case—already after the organization has been created. It seems there are reasons to assert that the replacement of the procedure based on permission by the procedure without prior permission served as one of the reasons for the considerable gap between the number of JEO that have been created and those that are really operating.

There are, undoubtedly, kinds of activity in which, because of the interests of the higher state organs, JEO should not be engaged. Meanwhile legislation up to now does not contain any restrictions on this account: It does not include an enumeration of either permitted or prohibited types of activity.

This serves as still another argument in favor of permission for the creation of JEO. In our view, this function could be performed by the Councils of Ministers of the union republics.

Those who come out in favor of the preservation of the procedure without prior permission usually call attention to the fact that the necessity of receiving permission leads to the dragging out of the process of the creation of the JEO. In this connection, the experience of the Hungarian People's Republic deserves attention, where a maximum time limit for the review of the corresponding questions by the organ of administration is provided for; in so doing, the lapse of the indicated time period is equated with consent to the creation of the JEO. It seems there are no obstacles to the inclusion of a similar norm in the future Law on Foreign Investments or the Law on Associations.

#### Constitutive Documents

The creation of JEO in accordance with the legislation currently in effect presupposes the presence of two constitutive documents: An agreement and a statute. In terms of their legal nature, both of them represent an agreement giving rise to mutual rights and obligations between the participants and the JEO itself. In connection with this, the

question arises: Are both of these documents really necessary? It seems that in the future it would be possible to limit oneself to only one—the statute. It goes without saying, this does not exclude for the participants the possibility of concluding an agreement. The transition to the system of one document would free the participants from the necessity of determining what questions should be regulated in the agreement and which in the statute.

#### Guarantees

The legislation on JEO currently in effect presents quite a few important guarantees both to the organization itself and to its participants, but several questions remain unresolved up to now:

a) Responsibility for damage inflicted by organs of administration. Article 89 of the Fundamentals of Civil Legislation, as an exception to the general rules concerning compensation for damage, establishes that responsibility for damage inflicted by organizations through actions of state and public organizations and their officials in the sphere of administrative government comes "ensues in accordance with the procedure established by law." Since the range of such laws and the situations encompassed by them are limited (in particular, with respect to JEO we can speak only of cases of the infliction of damage through the actions of state sea pilots, as well as illegal confiscations and requisitions), the question of the compensation of damage inflicted to JEO through illegal actions of the militia, the procuracy, the court, organs carrying out veterinary and sanitary inspection, inspection of work safety, customs organs, etc., remains open. To solve it positively, it is sufficient to include in the Law on Foreign Investments a norm which would provide for the approach of responsibility for the harm inflicted on JEO by the authoritative actions of administrative government (their officials), similar to what was done recently by the Law on the State Enterprise (Association).

At the same time, it is precisely now that the prerequisites are being created for removal from the Fundamentals of Civil Legislation part 1, Article 89. This leads to the fact that all situations encompassed by the indicated norm will be regulated by the general provisions of Article 88, which imposes, both on organizations and on citizens, the obligation of compensating damage inflicted by their culpable actions to both citizens and organizations without any differences;

b) material-technical supply. Given the present development of the market of material resources, the JEO is in need of a definite guarantee of the satisfaction of their demands for raw material and equipment. Such a guarantee will emerge if the obligation will be imposed on the USSR Gosnab to provide the JEO by way of the wholesale trade with all the resources they need for production activity. In so doing, we have mind that the JEO must be included in the enumeration of organizations being provided by way of the wholesale trade not only with the products being freely sold, but also with material resources that are being distributed centrally.

In this connection, it seems necessary to expand the operation of paragraph 2 of the Provisions for Deliveries of Products of Production-Technical Designation and paragraph 2 of the Provisions for Deliveries of Consumer Goods, in order for the indicated acts to extend their operation to the relations in which the JEO act not only as suppliers, but also in equal measure as buyers (i. e., to relations taking shape in the presence of the material-technical supply of JEO);

c) the sale of the products of the JEO. It seems expedient to extend the system of state orders to the JEO. It goes without saying that the indicated measure should in no way exclude the principle of the complete economic independence of such organizations.

The JEO should have the right to voluntarily take upon themselves the fulfillment of the obligations resulting from the state order;

d) the currency of payment. The indicated question is connected with the supplementary law introduced by the decree of 17 September 1987. It provides that a JE, "by agreement with Soviet enterprises and organizations, determines the type of currency in the settlements for commodities purchased." Having made use of the cited norm, the contractors frequently compel the JE to agree to settlements in a foreign currency. The fulfillment of such requirements puts into an especially difficult position the JE, which are oriented to domestic consumers and receive Soviet rubles for their products, work, and services. The limitation of such tendencies can be promoted by the establishment of a procedure under which the payment for products, work and services by the JEO must be, as a rule, effected in Soviet rubles. We have in mind that an exception may be made in cases where, under analogous circumstances, Soviet organizations and consumers also settle accounts within the country in foreign currency;

e) additional guarantees and benefits to participants. In particular, the following questions deserve attention:

#### Defense of the Interests of the Minority

The indicated goal, no doubt, is served by the norm provided for by the decree of 2 December 1988, by virtue of which "fundamental questions of the activity of the joint enterprise are decided at sessions of the board of directors on the basis of unanimity of all members of the board." Going further, every participant who, in the decision of a corresponding question, remained in the minority, should be given the right to dispute such a decision in court on the grounds of its contradiction of legislation currently in force or of the statute of the JEO.

#### Apportionment of Share to the Participant

In the apportionment of the share in connection with the liquidation of a JEO, or the departure from it, a foreign participant has the right "to the return of his investment in money or commodity form in accordance with the residual value at the moment of liquidation of the enterprise." It seems that this does not fully correspond to the interests of the foreign participant since the dimension of the part

which must be allotted to him is limited by the magnitude of his share in the capital stock. In addition, the indicated norm sometimes leads to the loss, by the participant, of an interest in the expansion of the accumulation funds. In this connection, provisions should be made for the right of the foreign participant to receive, without limitations, his share of the total property remaining after the cancellation of all debts of the JEO. It is expedient to exclude also the limitation to the effect that the foreign participant acquires the right to receive [his] part of the investment and its export abroad only after the completion of settlements with the Soviet participants and third persons. It seems that the legislator could limit the demand for preliminary settlement with creditors only with respect to debts connected with the participation of a foreign firm in a JEO.

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#### Finance Officials in Roundtable on Ruble Convertibility

90U10021A Moscow PRAVITELSTVENNYY VESTNIK  
in Russian No 19, Sep 89 pp 8-9

[Report by V. Lvov and Yu. Nikolayev on roundtable discussion: "How We Can Make the Ruble Convertible"; first paragraph is PRAVITELSTVENNYY VESTNIK introduction]

[Text] When will we be able to go into a bank and exchange rubles for, for instance, dollars? What conditions will be needed to make our national currency convertible? These questions were the subject of a PRAVITELSTVENNYY VESTNIK roundtable discussion. The participants were USSR Deputy Minister of Finance V. Sitnin, Deputy Chairman of the Board of the USSR Foreign Economic Bank T. Alibegov, Deputy Chief of the Currency Administration of USSR Gosbank O. Mozhayskov, sector head in the summary economic department of the State Foreign Economic Commission of the USSR Council of Ministers A. Nikitin, and Candidate of Economic Sciences R. Grinberg (Institute of the Economics of the World Socialist System, USSR Academy of Sciences).

V. Sitnin: First of all, we should probably explain to the readers what convertibility is, what conditions are needed for its accomplishment, and what stages we might go through in this process.

T. Alibegov: Convertibility, or exchangeability, is the ability to freely buy and freely sell foreign currency for national currency. In fact, this is the basic principle of international trade—that each country will import and export what it wants. There are no restrictions on exports and imports. The state influences the economy to ensure that payments from abroad and payments sent abroad will be approximately equal. A significant point here is that it influences the economy as a whole, and not just foreign trade. Only in this case can we even speak of convertibility. Then any citizen and any enterprise or organization will be able to freely buy or sell foreign currency without receiving any kind of special permission from the state, which will

use economic methods instead of administrative measures to balance foreign payments with receipts.

V. Sitnin: I would add that convertibility is a general economic term rather than a purely financial one. It is a salient attribute and essential feature of the market economy. It allows the manufacturer of goods to make his own decisions on what he will buy and where he will buy it—within the country or abroad—and on what he will sell and where he will sell it—within the country or abroad. Without a convertible currency the manufacturer of goods in a market economy has virtually no chance of inclusion in international division of labor. For this reason, in my opinion, convertibility comes into being and exists only in a market economy. It cannot exist in a centrally organized economy. There is simply no room for it in the system of directive planning and authoritarian methods of management. Furthermore, enterprises have no need for it. The need arises only when we make the transition to market methods of regulating the national economy and when we make the manufacturer genuinely free—economically independent and operating on the basis of full economic accountability.

O. Mozhayskov: Many people associate convertibility with the ability to go into a bank and exchange, for instance, rubles for dollars. When we begin telling the reader about the conditions of convertibility—for example, about the correlation of exports with imports—he gets upset and thinks that we are trying to evade the issue. A person does not relate the term "imports" to his own needs. He only needs to buy, for example, a videocassette recorder. The same is true of economic managers. In their opinion, we have to buy, for instance, computers. These are not regarded as imports. This is a matter of satisfying personal or production needs, and not of imports.

I would separate the monetary phenomenon from the general economic side of the matter. I want to stress that convertibility presupposes not only someone's wish to buy dollars, but also the presence of the opposite demand—the need to buy rubles. This is, so to speak, a two-way street. Any kind of transaction requires mutual interest. Convertibility will not exist if the intensity of these reciprocal flows is not balanced. In short, we have to have voluntary sellers of dollars and people who wish to buy rubles. None of the citizens or enterprises with foreign currency in our country has the wish to do so under the conditions of the present shortage of high-quality goods and equipment. Do any of our foreign partners wish to do this? Yes, we do get some offers. Some foreigners want to sell dollars for rubles, but the majority of these offers appear to be speculative in nature. One Arab businessman, for example, offered to sell us 200 million dollars for a billion rubles. What did he want to buy with the rubles? Honey and bee glue, which are already in short supply in our country. Obviously, we could not agree to any such transaction.

T. Alibegov: Even if we had agreed to this transaction and other like it—and we do get offers like this from time to time—the foreign currency we would receive, regardless of the exchange rate of the ruble, would still not be enough to

secure the bilateral flow needed for convertibility because the shortage in domestic supply and demand would still be a shortage.

V. Sitnin: In short, convertibility is deeply rooted in the production sphere. The transfer to convertibility cannot be merely an effective decision or innovative plan. This is why it seems odd that competitions have been announced for these kinds of plans, with the prizes to be paid in the same dollars. No magic wand will help. The roots of the problem lie in the quality of the economy and the level of production. Specific general economic conditions are needed here. They are known to the entire world:

- 1) a balance between the total amount of money in circulation and commercial resources;
- 2) the market-regulated distribution of resources;
- 3) a secure position in the system of international division of labor;
- 4) the existence of competitive goods.

It will take a great deal of time for all of these conditions to be established in our country, but we must start taking steps toward convertibility today.

T. Alibegov: Foreign buyers of rubles must be certain of their commercial value. At this time, because of the current shortages, the rubles they buy for foreign currency could hardly be used to acquire goods and raw materials. Every economic manager knows this. We are not trading in commercial resources; we are simply distributing them. What options does the foreign buyer of rubles have? One option is the money market, but it is virtually non-existent in our country. The low rate of interest—3 percent—in our savings bank certainly cannot attract the serious businessman. The creation and operation of a money market will necessitate a demand for the ruble. If there is nothing to buy with the rubles, however, why would anyone want them?

O. Mozhayskov: Yes, in the final analysis, everything hinges once again on commercial production. It is true that long-term investments represent another possibility. This would require a capital market, in which money would be invested for a fairly long term in the hope of a profit, but we do not have a capital market either. After all, this is essentially an element of the market economy, which takes time to create. Therefore, at this time we do not have the conditions allowing us to expect foreigners to buy rubles and create some kind of reciprocal dollar flow.

In short, we have come back to the problem of balancing exports with imports.

V. Sitnin: Yes, this can only be done by enhancing our export capabilities.

T. Alibegov: Or by improving the technological level of production, and particularly by replacing imports.

R. Grinberg: Some people say that we need a healthy and sizable export sector to acquire foreign currency and that there is no point in even discussing convertibility until we

have this. Others feel that we should find some kind of technical monetary means and that competitions should be announced for the elaboration of some kind of decision to set the entire economy in motion in this direction.

In essence, all of this is a vicious cycle. There can be no convertible currency without a strong export sector, and there can be no strong export sector without a convertible currency. The cycle must be broken. We know of the classic ways in which the West European countries achieved convertibility after the war. They had a market economy philosophy from the very beginning, despite the existence of currency restrictions, and market relations were developing in these countries. Bilateral clearing operations lay at the basis of ties between these countries, and it took only 15 years of consistent steps to reach convertibility. Some people think that we can do exactly the same thing. We can begin by authorizing convertibility for foreign firms, then for enterprises and organizations, and then for citizens, but it seems to me that our situation is more complicated.

For this reason, in my opinion, we should not take the classic road—i.e., we should not begin by introducing convertibility for foreign firms. I think we should give currency auctions a try.

V. Sitnin: Currency auctions are essentially a way of distributing foreign currency earned through exports on a market basis. A decision has been made in our country on experimentation with auctions to sell foreign currency to enterprises. In essence, this would be the first step in creating the necessary conditions for the convertibility of the Soviet ruble. First of all, we should consider the sources of the currency we plan to sell. If this is to be a matter of simple redistribution, the framework will be quite narrow. This kind of auction requires centralized funds. This must be understood clearly. In other words, the portion of the currency the center wishes to allot to enterprises will be allotted through market distribution, through actions, and not through standard currency deductions.

A. Nikitin: This will be an attempt at providing enterprises with foreign currency for imports on a competitive basis, but since this currency is in short supply and is distributed according to plan among consumers primarily for the most necessary goods, it will be difficult to put it in circulation by means of an auction.

In the future, as the market and commercial production develop and as the quality of goods improves in our country, we should make the transition from the distribution of foreign currency according to plan to distribution on a competitive basis so that the producer will have an interest in acquiring it. It is possible that then we would have less uninstalled imported equipment and that capacities will be incorporated more quickly.

T. Alibegov: Even if auctions represent a definite step toward the convertibility of the ruble, even if they give the individual enterprise and the state a chance to acquire

foreign currency, they will not produce genuine convertibility. Even if we distribute all of our foreign currency through auctions, we can still distribute only what we have received.

Of course, this will bring convertibility closer and will establish additional conditions for it, but the basic conditions will depend on the economy.

Nevertheless, auctions will be useful. We will be experimenting and testing different methods of redistributing currency so that it will not accumulate to no good purpose in one enterprise but will be transferred to another enterprise capable of making better use of it.

O. Mozhayskov: When we discuss the convertibility of the ruble, we must also consider the rate of exchange. After all, there is a popular opinion that the bank has set an unrealistic rate of exchange for the ruble in relation to the dollar. Who will sell one for 60 kopecks when he can get more than a ruble for a dollar on the black market? Of course, this does provide food for thought, but this is not the root of the problem. A change in the exchange rate of the ruble will not solve the problem of convertibility. Of course, it would be possible to set a rate of exchange which will depreciate the ruble. For instance, no one will want to buy 1 dollar for 100 rubles, but then what price will people pay for our goods? It will be more profitable to melt down a machine tool and sell the metal than to export the tool. In other words, setting an unjustifiably low exchange rate for the ruble will lead not only to unequivalent exchange, but also to fraud and the robbery of our national wealth.

V. Sitnin: Yes, we must not forget that the more we devalue the national currency in relation to world currencies, the more expensive imports will be.

Some have suggested the use of the black market exchange rate in the economy because they say that this is a realistic rate, but they are losing sight of the fact that this would increase the cost of imports for the national economy tremendously. Machines and equipment will cost us so much that the inflationary spiral will have to be tightened and we will have to raise the prices of imported goods and of the goods produced with the aid of imported equipment and parts.

O. Mozhayskov: We cannot even begin discussing a single realistic rate of exchange until we have put our pricing practices in order. The fact is that in our economy, with its centralized planning, the rate is calculated in a method that seems extremely simple on the surface. We take a certain group of goods abroad and in our country and their prices in dollars and rubles, divide one by the other, and derive the rate of exchange. This parity principle lies at the basis of the present rate of exchange. The calculations that are made from time to time confirm, however odd this might seem, that the current rate of exchange is close to the parity of the purchasing power of the ruble and dollar.

T. Alibegov: The rate of exchange is derived through an averaging process, but what does this mean? If we take specific goods, we see such a wide range of figures that no single rate of exchange can be applicable. If we calculate

the relationship of the ruble to the dollar on the basis of the prices of petroleum products, we should pay 25 kopecks for a dollar, but we are paying more than 60. If our calculations are based on the cost of a personal computer, we should pay from 25 to 40 rubles for a dollar. If the motor vehicle is the basis, the dollar will cost 1.5 rubles, but if the airplane is the basis it will cost 35 kopecks. Consequently, the range of prices in our country is so great that it is several times the range in the world market and in other countries, and there is no absolute basis for comparison. We can therefore conclude that until we have brought prices in line with socially necessary expenditures, we will not have a rate of exchange acceptable to everyone.

V. Sitnin: I think that in the near future we will have several rates of exchange rather than just one. First of all, there will be no single rate for the exchange of the personal funds of citizens and the funds of enterprises for trade and non-trade operations. It is possible that there will also be a separate auction rate, but it is more likely to reflect the possibilities for the effective use of funds than trade conditions. In trade an exchange rate is needed to maintain normal relations of economic accountability, to sustain the interest of our exporters, and to impose certain restrictions on the uncontrollable urge to buy only imported goods. To this end, the best method of setting the rate will entail the calculation of export equivalents: how much national currency it will take to earn a unit of foreign currency.

But can a change in the exchange rate of the ruble promote its convertibility? I feel that any devaluation of the ruble cannot bring convertibility any closer without a change in the economy. After all, I think that the present problem is not just that our machine tools are expensive, but also that their use value is close to the use value of the metal used to make them. If we simply devalue the ruble whenever we cannot supply what the market needs, the public standard of living will decline dramatically.

O. Mozhayskov: It is true that a change in the exchange rate and the devaluation of the ruble within any reasonable bounds will not bring us closer to convertibility, but it is just as obvious that the ruble will be devalued during the transition to convertibility. After all, it would be wrong to assume that when everything is in order in our economy, when our industry is competitive, and when our market is filled with all types of goods, we will institute convertibility. We will not need it then.

There is also another important point. People in our country now see only the advantages of convertibility, but there is another side of the matter. Convertibility will establish an extremely strong connection between our economy and the foreign market. This will have a negative side as well as a positive one. Crises abroad will also affect our own economy.

V. Sitnin: Of course, convertibility is not a goal in itself, but a means of enhancing the effectiveness of our economy and raising the standard of living. For this reason, any roads which lead to convertibility but which also escalate inflation, lower the standard of living, require radical structural changes in the national economy, and produce

other negative results will certainly be unacceptable and should be avoided. The possibility of several exchange rates—trade and non-trade—is quite feasible in the near future. This would probably help us regulate monetary flows. This could be followed by auctions and market sales and the market or competitive distribution of currency. The next step would entail setting a more accurate rate of exchange and effecting some devaluation. It would be difficult to predict the exact amounts at this time, but we must base all calculations on actual economic proportions and on the effects of the new rate of exchange on the national economy. The change in the exchange rate must not create additional tension in the national economy. Convertibility and the progression toward it must be regarded as an instrument of the reforms that will ultimately allow our country to occupy a fitting place in the world economic community.

#### Formulas for Converting Ruble Presented

90UI0022A Moscow FINANSY SSSR in Russian  
No 8, Aug 89 pp 67- 71

[Article by V. V. Acharkan, candidate of economic sciences and research associate at the Finance Scientific Research Institute: "Current Issues of Currency Exchange Rate and Ruble Convertibility"; passages in italics as published]

[Text] Radical economic reform, the creation of a modern economic model, and the development of new economic forms—concerns, leases, cooperatives, and joint-stock companies—were discussed at length at the last Congress of People's Deputies of the USSR. Priority was assigned to the enhancement of the competitive potential of Soviet goods in world markets, the reinforcement of monetary circulation and the Soviet ruble, and the gradual accomplishment of its convertibility, primarily in economic relations between the USSR and the CEMA countries.

The monetary machinery, exchange rate, and convertibility of the ruble will depend on the overall conditions of reproduction in the Soviet economy and specialization in the sphere of foreign economic relations.

*Spheres of use of exchange rate of ruble in relation to foreign currencies and of convertibility:* The Soviet Union has its own currency regulations, differing dramatically from the system used to set the exchange rate and the convertibility of currencies in the capitalist states. The fundamental differences between currency regulations in the USSR and the capitalist countries are the following:

The exchange rate of the ruble in relation to foreign currencies is firm;

The convertibility of monetary units is planned. This means that all enterprises can exchange domestic currency for foreign currency within the framework of a strict plan;

The ruble is a closed currency in the sense that prices are not expressed in Soviet rubles in contracts;

Soviet rubles and other monetary units cannot be taken out of the country in large amounts by Soviet and foreign citizens or enterprises;

Foreigners are forbidden to acquire enterprises, land, and other real estate in the USSR;

The basis of Soviet foreign economic relations in the world socialist market is the transferable ruble. In contrast to the national currencies in the developed capitalist countries, the transferable ruble is used mainly to service Soviet foreign trade turnover.

The ruble is now a convertible currency within planned confines. Socialist enterprises are able to exchange Soviet bills for foreign currency within the confines of the state export and import plan and currency plan.

The need for the broader convertibility of the ruble is connected primarily with the need to eliminate negative aspects of Soviet foreign economic relations. Above all, raw materials are still predominant among Soviet exports. The main export goods are oil, gas, timber, etc. Second, the percentage of products of the processing industry in Soviet exports is declining, especially in trade with socialist countries. Third, convertibility is needed for the successful functioning of joint enterprises and the continued flow of foreign capital into the USSR economy. Fourth, convertibility is needed to create favorable conditions for the functioning of the projected free economic and banking zones in the USSR (in the Baltic republics, in regions of the Far East, and in Odessa).

The form of convertibility is an important issue. There are several options: from the slight expansion of the practice of convertibility within planned boundaries to complete convertibility in trade and non-trade operations. In view of the prevalence of the state and kolkhoz-cooperative forms of ownership, the USSR cannot have the kind of convertible currency that is characteristic of industrially developed capitalist countries, because factories, plants, big industry in general, and agricultural land still cannot be purchased for foreign currency in the Soviet Union by law. In the capitalist countries, on the other hand, everything can be bought and sold for currency.

As an economic prerequisite for the convertibility of Soviet monetary units, internal monetary circulation, which now suffers from a lack of uniformity, will have to be put in order. Soviet foreign economic relations are serviced either by the freely convertible currencies of developed capitalist countries or by transferable or clearing rubles—i.e., those used in clearing operations, which simply record the transfer of real value in the barter form of trade, because shipments of all goods are included in intergovernmental protocols on commodity turnover and payments.

In accordance with the intergovernmental agreements on settlements in national currencies, concluded by the USSR in 1988 with the CSSR and Bulgaria, the Soviet ruble can be used along with the transferable ruble as a price currency and payment currency in transactions with these countries.

Current regulations in USSR exchange operations and the convertibility of the Soviet ruble are based on law and economic practices. Soviet organizations, for example, can transfer foreign currency abroad and exchange rubles for foreign currency within the limits set by planning and financial agencies in currency plans. Private individuals are limited to taking 500 rubles with them when they go to socialist countries and 30 rubles, or 200 rubles a year, when they go to capitalist states.

There are no restrictions on the amount of foreign currency and other monetary units which can be brought or sent into the country from abroad and exchanged for rubles. In accordance with currency legislation, however, Soviet currency, treasury bills, and government bonds cannot be brought or sent into the country from abroad or taken or sent abroad (except in insignificant amounts under 30 rubles).<sup>1</sup>

The specialized foreign-trade organizations, the enterprises (or associations) empowered to operate directly in foreign markets, cooperatives, and public organizations must sell all of the foreign currency in their possession to USSR Gosbank or the USSR Foreign Economic Bank at the official USSR Gosbank exchange rate or at the currency differential rate. Receipts and payments are made by depositing the foreign currency in the proper accounts in USSR Gosbank or the USSR Foreign Economic Bank. Private individuals purchase foreign currency through banking organizations.

Work is being conducted in the country to secure the sequential convertibility of the ruble, first in relations with socialist countries. Certain positive changes have occurred in USSR currency regulations in connection with this. Foreign currencies are being used more widely in USSR economic relations with foreign socialist countries: The reciprocal convertibility of national currencies and the transferable ruble is being instituted in direct contacts between enterprises in the socialist countries and in their joint production and scientific-technical operations.

The size of the currency funds of enterprises (or associations) and organizations is increasing. In all, a total of 3.7 billion rubles had been deposited in currency fund accounts in 1988, including 1.2 billion in hard currency. In 1989 alone, more than 2 billion rubles will be deposited in these accounts. In accordance with new statutes, funds are deposited in currency accounts when receipts reach the Foreign Economic Bank, and not at the end of the year as in the past. The bank pays interest on these accounts at world market rates.

Currency receipts remain at the disposal of enterprises in full only when they are the result of direct transactions, border trade, or the operations of joint enterprises. Today this is clearly inadequate. The use of currency deposits by enterprises requires authorization from the sectorial ministry and the ministry supplying the domestic market with substitute goods and inclusion in the import plan for the coming year. Enterprises and organizations also receive authorization from the appropriate sectorial and planning agencies for exports.

The system of Soviet ruble exchange rates includes the following:

The parity rate of the ruble, with a gold content of 0.987412 grams of pure gold;

The official rate of exchange in relation to the currencies of capitalist countries and socialist and developing states, set by the USSR Ministry of Finance at the beginning of the 1960's and regulated by USSR Gosbank;

The currency differential rate, set by USSR Gosplan and the USSR Ministry of Finance. The rate is set separately for the European CEMA countries, countries with freely convertible currencies, and Finland, India, Yugoslavia, Egypt, Iran, and other countries. The currency differential rate is used in export and import operations;

The rate of exchange set by converting the balance of non-trade operations in transferable rubles into Soviet rubles.

The currency regulations of the USSR should be based on an economically sound rate of exchange for the Soviet ruble, the uniform circulation of Soviet and foreign currency, and the authorization of the unrestricted use of enterprise currency funds (the ruble equivalent of foreign currency resources).

*The institution of an economically sound ruble exchange rate.*

Currency exchange rates in capitalist and socialist countries are based on proportional exchange value—the international values of a specific quantity of goods and services constituting the commercial worth of a particular monetary unit. The proportional exchange value of currencies is reflected in the relative purchasing power of currencies. By tradition, major revisions of the exchange rate of the ruble have been based on its relative purchasing power and on its gold content.

This was the case when the gold basis was established in 1950 and when the gold content was changed and a new exchange rate was set in 1961. The currency exchange rate of the ruble which has been in effect in the USSR since 1 January 1961 was "based on the real relative purchasing power of currencies in relation to the total national product."<sup>2</sup>

A comparison of the social product of the USSR in rubles and the gross national product of the United States served as the basis for the new gold content of the Soviet ruble—0.987412 grams of pure gold—and the new exchange rate of the ruble: 90 kopecks to each U.S. dollar. In the old price range this would have meant that 1 dollar would be equivalent to 9 rubles, but the surcharge for non-trade payments in effect from 1957 to 1960 made 1 dollar equivalent to 10 rubles. The new exchange rate (established at the beginning of the 1960's) had a positive impact by strengthening internal circulation and developing foreign economic relations.

The currency exchange rate of the ruble and the methods of setting it have been changed four times since the

monetary reform of 1922-1924 in the USSR: in 1936, in 1950, in 1961, and when the floating exchange rates of capitalist currencies were instituted (March 1973), at which time the dynamics of the ruble exchange rate began to reflect changes in the exchange rate of the dollar in relation to West European currencies and the Japanese yen. At this time the currency exchange rate of the ruble is 58-62 kopecks to each U.S. dollar.

Decree No 1405 of the USSR Council of Ministers "On the Further Development of the Foreign Economic Activity of State, Cooperative, and Other Public Enterprises, Associations, and Organizations" of 2 December 1988 says: "For the purpose of expanding USSR participation in world division of labor, intensifying integration processes, particularly in new forms of cooperation, and increasing the validity of assessments of export and import effectiveness, a new currency exchange rate will begin to be used in foreign economic operations on 1 January 1991.... A 100-percent surcharge on the exchange rate of freely convertible currency in relation to the ruble will be used from 1 January 1990 until the new exchange rate is used in these transactions."<sup>3</sup>

The main obstacle to the convertibility of the Soviet ruble, particularly in relation to freely convertible currencies, is an excessively high, economically unsound exchange rate. This is attested to, in part, by the exchange rates of the ruble on what is known as the "black market" in the USSR (where 1 U.S. dollar costs 10 or more rubles) and the "gray market" in capitalist countries (where 1 U.S. dollar costs 15-20 rubles).

Economic calculations, including those of the UN research group headed by renowned American economist I. Kravis, and those cited in specialized economic literature in the developed capitalist countries, indicate that the exchange rate of the ruble at its present level (1 U.S. dollar = 62.24-81.10 rubles = 100 SDR units) is approximately 10 times as high as it should be.

The present system used in setting the official exchange rate of the ruble in relation to the currencies of developed capitalist countries is based on the parity rate set at the beginning of the 1960's and on changes in the exchange rate of the U.S. dollar in relation to West European currencies and the Japanese yen. This system does not take the past devaluation of the ruble into account: According to official estimates, the purchasing power of the ruble was 2.5 times as high in 1960 as it is today. The rate of inflation in the Soviet economy in recent years has been 2-4 percent a year.

Measures to institute an economically sound exchange rate for the ruble should be sequential. They should begin with the replacement of the present confusing system of currency differentials, which must be revised every 6 months, with 3-5 differentials corresponding to the main sections of the Standard Commodities List or the International Trade Classification Standard and with a special rate in relation to capitalist currencies in non-trade operations. Changes in the exchange rate of the ruble could coincide with the general rise of wholesale prices in the 13th Five-Year Plan.

It is possible to calculate a single set of currency differentials for the export and import of general groups of commodities. A higher import differential will promote more reasonable policy in purchases of machines, equipment, and other goods, and additional export profits will augment state budget revenues.

The official exchange rate of the ruble in relation to currencies in developed capitalist countries is particularly inconvenient in non-trade operations. This gives rise to speculation in foreign currencies and other negative practices.

The historical experience of the Soviet Union (in the middle of the 1930's and the early 1960's) attests to the effectiveness of instituting a rate for non-trade operations as a way of verifying the economic validity of the new currency exchange rate of the ruble.

A special rate for non-trade operations with a mark-up of 300-500 percent in relation to the official rate would be helpful in the development of economic relations with developed capitalist countries, the mobilization of additional foreign currency resources, and the elimination of the objective economic basis for speculation in Soviet rubles in the country and abroad. The state budget expenditures in rubles needed for the institution of these mark-ups could be covered by the income from purchases of import items with a high level of budget effectiveness.

The rate for non-trade operations could be set at a minimum of 5-6 rubles to the U.S. dollar. The excessively high exchange rate of the ruble has led to a situation in which legal and physical persons do not exchange foreign currency for rubles for years. As a result, the country loses the large foreign currency resources needed for purchases of grain and consumer goods, and this has a negative effect on the working public's standard of living.

*The liberalization of USSR currency regulations and the procedure of using enterprise currency funds.* Enterprises should have the right to use currency funds without inclusion in the import plan for the coming year and numerous authorizations from their own ministry and the ministry supplying the domestic market with substitute goods. Enterprises operating on the basis of full economic accountability, self-financing, and self-sufficiency should spend their foreign currency resources in a "checkbook" system, with the checks to be paid without delay by the USSR Foreign Economic Bank and special banks financing the national economy.

Only the transfer from the system of currency deductions to the creation of currency funds representing all receipts in full will achieve the organic coordination of the results of foreign economic operations with the overall results of the activities of an economically accountable work crew. Limitations in the form of preliminary authorization from superior agencies should be retained only in the sphere of foreign investment in the USSR and Soviet investment in foreign countries.

There is no question that the liberalization of currency regulations will lead to the creation of a currency market in

the USSR. During the initial stages the currency market could function in the form of the regular currency auctions now held in some socialist countries. Decree No 1405 of the USSR Council of Ministers of 2 December 1988 will institute the free exchange of resources in currency funds and the purchase and sale of these resources for Soviet rubles at contract prices at currency auctions organized by the USSR Foreign Economic Bank.<sup>4</sup>

*The issue of foreign indebtedness and the convertibility of the ruble.* At this time, when foreign indebtedness is calculated in freely convertible currencies and the low official exchange rate of the ruble, it constitutes less than 1 percent of the GNP, but it should be borne in mind that this is a matter of clearing rubles, which "carry more weight" than domestic rubles. The main elements contributing to the growth of foreign indebtedness are the imports of grain for more than two decades and the inefficient use of foreign credits. One of the reasons is that there is no specific production team with a financial interest in their efficient use.

The main problem in Soviet currency and financial transactions, and economic relations in general, with developed capitalist countries is the excess of preliminary planning involved in each project. The absence of a specific department or client with a financial interest in the efficient use of plans, the need for annual reconfirmations of expenditures of material and financial resources, the confiscation of unutilized resources by superior agencies and planning boards each year, and the annual planning of investments during the installation of imported equipment all breed irresponsibility and lead to the inefficient use of foreign equipment.

Obviously, it would be expedient to assign the responsibility for the installation and use of foreign equipment, particularly equipment bought with freely convertible currency, to existing production teams, large production associations and state production associations, so that they would be fully accountable, particularly in view of the stipulation in Decree No 991 of the CPSU Central Committee and USSR Council of Ministers of 19 August 1986 that the results of foreign economic operations should be included in the overall results of economic activity and should affect economic incentive funds.

After the efficient use of credits has been achieved, especially in project financing, active efforts to attract foreign credits must be continued. This applies mainly to branches of the machine-building, agroindustrial, and transportation complexes. Furthermore, it would be expedient to extend credits to specific teams working on the basis of full economic accountability, self-financing, and self-sufficiency, and not only through USSR Gosbank and the USSR Foreign Economic Bank, but also the special banks crediting and financing the national economy (USSR Promstroybank, USSR Agroprombank, and USSR Zhilotsbank). This will encourage sounder and more effective bank control of their efficient use. This kind of crediting could be based on the rate of interest in the international capital market. It was precisely on this basis

that credit was extended to the intersectorial "Mikrokhirurgiya glaza" scientific and technical complex.

The liberalization of currency regulations, including the authorization of enterprises to apply for credit in foreign currencies from Soviet specialized banks and foreign banks with the use of the goods and property of the economically accountable work crew as collateral, could increase the country's foreign debts at first, but the more efficient use of credits in foreign currencies should subsequently decrease indebtedness.

The institution of convertibility and an economically sound exchange rate for the ruble will balance prices within the country and bring them in line with prices in the world capitalist market and institute wholesale trade in the means of production with the authorization of enterprises operating on the basis of full economic accountability, self-financing, and self-sufficiency to deal directly with foreign suppliers of machines and equipment. In other words, alternative suppliers of the means of production will come into being.

The transfer to a single ruble exchange rate with the application of liberal currency legislation and the retention of restrictions only in the investment sphere should be accomplished prior to the 13th Five-Year Plan, so that the country will enter the new five-year plan with smoothly operating machinery for the monetary servicing of foreign economic relations.

The institution of convertibility and an economically sound exchange rate for the ruble will be a complicated economic undertaking and will require thorough preparation and a sequential program. The complete convertibility of the ruble can be achieved by establishing the appropriate general economic and monetary prerequisites—i.e., the institution of full economic accountability, the development of the leasing contract, the elimination of unprofitable operations, the balancing of the state budget, and the accumulation of large currency reserves.

#### Footnotes

1. The main legislative acts covering currency exchange operations are the ukase of the USSR Supreme Soviet Presidium "On Monetary Transactions Within the Territory of the USSR" of 30 November 1976 and the statute on Soviet currency, foreign currency, and other monetary units carried or sent into and out of the country or through the country, ratified by a decree of the USSR Council of Ministers of 6 April 1982.
2. KOMMUNIST, 1961, No 1, p 62.
3. EKONOMICHESKAYA GAZETA, 1988, No 51, p 17.
4. IZVESTIYA, 9 December 1988, p 2.

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**Prospects for Business with Engineering Giant  
Asea-Brown-Boveri**

18250352 Moscow IZVESTIYA in Russian 24 Sep 89  
Morning Edition p 2

[Interview with Asea-Brown-Boveri [ABB] President Persk Barnevnik by IZVESTIYA correspondent V. Mkrtchyan: "The ABB Concern Looks Ahead"]

*[Text] The business activity of foreign firms and companies in Moscow is increasing at an unprecedented rate. Not a day goes by without an announcement of the opening of a new trade or industrial representation, the signing of a protocol on the creation of a joint venture or the arrival or press conference of this or that representative of the Western business world. The opportunity of taking advantage of the new conditions for broader and deeper economic collaboration opening up here as the result of restructuring is obviously attracting many here. A correspondent from IZVESTIYA met with Persk Barnevnik, president of the Asea-Brown-Boveri (ABB) concern, known around the world, in the foyer of the Savoy Hotel at the corner of Rozhdestvenki and Pushechnaya streets.*

[Mkrtchyan] Asea-Brown-Boveri is known around the world as a leading engineering concern in the realm of power engineering. I would like to know when the first business contacts by the firm you head began in the Soviet Union and how they are developing today.

[Barnevnik] Asea-Brown-Boveri is the largest group of electro-mechanical engineering companies in the world. It was founded 20 months ago via the merger of the Swedish ASEA and the Swiss Brown Boveri. It combines the best traditions and the competence of both of the prior groups. ABB has 200,000 employees, and sales this year will reach approximately 25 billion dollars.

If we look back we see an 85-year history of business ties between the companies in our group and your country, a history in which there were naturally periods of ups and downs. But we are looking ahead and hoping that our business relations with the Soviet Union and, of course, the other CEMA countries will develop in constructive fashion in the future.

There are several areas in which we can bring benefit to the Soviet economy, satisfying its requirements and needs, and develop mutually advantageous ties. We have already arranged collaboration with the Soviet Union in the realm of electric-power generation. We recently received an order to equip two more generator installations at the Perm Electric Power Plant with our control systems.

It is well known that your country is experiencing a considerable need both for the construction of new installations for generating electric power and for the modernization of electric power plants already in operation. ABB has offered its experience and equipment to ministries and enterprises in the USSR on a cooperative basis. This relates to installations for the generation of both gas and steam, as well as for projects being implemented within the

country and for deliveries going for export. ABB is moreover negotiating on the founding of a joint venture with the Leningrad Metals Plant on the production of large gas turbines. These turbines are equipped with combustion chambers with a low level of formation of harmful emissions. This is an advanced ABB technology that will help protect the environment.

[Mkrtchyan] Asea-Brown-Boveri is active on many planes. In what directions besides electric-power generation is collaboration developing or could develop?

[Barnevnik] Many possibilities exist. Especially in the realm of current transmissions at high voltages over great and very long distances. I could also mention cellulose and paper and the chemical, metallurgical and motor-vehicle industries as examples of sectors in which we offer know-how. ABB has become one of the most important suppliers of equipment for transportation as well.

Interesting possibilities for collaboration also exist in the production of equipment for the maritime fleet and the shipbuilding industry. Automating small merchant vessels, for example. The Finnish members of the ABB group are working especially actively in this realm.

Finally, a member of the executive committee of ABB, Mr. Eberhard von Körber, was recently here in Moscow discussing problems connected with the development of a railroad network between Eastern and Western Europe using high-speed trains, which could become a reality as early as this century.

Asea-Brown-Boveri is a true trans-European group of companies. We are engaged in scientific research and engineering development, production, marketing and sales in all the countries of Western Europe, as well as technical support for almost everything relating to electrical equipment. Our most important centers are located in Sweden, Finland and Norway in Northern Europe, West Germany and Switzerland in Central Europe and Italy in Southern Europe. The volume of our activity in Great Britain and Spain is also growing rapidly.

[Mkrtchyan] Is the New World also entering the sphere of activity of ABB?

[Barnevnik] Yes, it is. ABB is a leader in the realm of combined-cycle electric-power plants, and an installation that is operating successfully in the United States is an excellent example of this technology. Our projects are being implemented in the United States in the realm of the further development of technologies for safe nuclear reactors and installations for the ecologically clean combustion of coal. We have, for example, great hopes for the technology of combustion in a swirling-type furnace, which has been tested and evaluated in the United States and Japan and which is considered an interesting alternative to coal gasification. The construction of such installations is currently underway in the United States, Sweden and Spain.

[Mkrtyan] We were talking about advanced technology from ABB that is helping to solve ecological problems. Are there plans to expand that sort of collaboration with our country?

[Barnevik] The protection of the environment has become a key element of any economic activity. We are thus negotiating to create a joint venture between the Flitz group, which is part of ABB, and Soviet partners in that realm as well.

### Seminar on Prospects for Soviet-West German Joint Ventures

90UJ0038 Moscow PRAVDA in Russian 11 Oct 89  
Second Edition p 4

[Article by Ye. Grigoryev, PRAVDA special correspondent: "Formation: Joint Enterprises—Today and Tomorrow"]

[Text] Cologne, October—The "Joint Enterprises in the USSR" Seminar, which is organized by the German group of the International Chamber of Commerce (MTP), has become a distinctive tradition as has the site for holding it—the Cologne Hyatt Regency Hotel. Last year, the seminar participants were crowded into relatively small premises. This time, the spacious "Reynskiy Hall" was required because twofold more of them got together—more than 300 individuals.

Representatives of West German companies, banks and scientific establishments are in the forefront of displaying interest in acquiring information on conditions and experiences relating to the new forms of cooperation with the USSR. Since their organizers do not forget about cost accounting and cost recovery even during such seminars, each participant (they have "shown mercy" only to the press) has made a considerable financial contribution for the right to hear the reports and communications and to exchange opinions on the subject of interest.

Joint enterprises (SP) and firms have not been a miracle or a sensation for a long time. They are a component part of Soviet-West German cooperation although their history covers only approximately two years. The pioneers were machine-tool builders—the (Khaynemann) firm headed by the dynamic R. Lang and the Moscow Production Association imeni Sergo Ordzhonikidze. Now, a sign "Khomatek—Technological and Commercial Center" has been mounted on an entire wall of one of the modern buildings in the ancient Baden city of Villingen. In the (Khaynemann) workshops and the medium-size machine building plant in neighboring Sankt Georgen, you see specific examples of joint work: a series of highly accurate Khomatek machine tools and a new processing assembly of the same origin.

Lang and his Moscow partners have great plans. They intend to begin construction of a Khamatek Technological Center in Moscow. The partnership of the well known (Libkherr) firm, which is producing modern truck cranes in a joint enterprise in Odessa, has acquired real features.

If one adds another two joint firms to these pioneers, one can obtain a picture of the new form of cooperation at the end of 1987. However, there already were 26 Soviet-West German joint enterprises a year later. An exchange of visits at the highest level has accelerated this process. Dozens of new joint firms have been registered over the course of the last few months. There are now 122 of them and this number will undoubtedly increase before the end of the year. The FRG occupies a leading place among Western partners in these undertakings.

At first glance, the joint enterprises embrace a rather broad spectrum of production activity—from the production of modern metal-working equipment, laser equipment, and medical equipment and instruments to consumer goods and food. Unfortunately, however, only a small portion of the joint enterprises are now engaged in production. The majority of them are connected with the service area and middleman operations. This is also a necessary job but it is nevertheless not the main one if one has in mind a mutually beneficial addition to the production potentials of our countries and the use of these potentials on avenues that are really promising.

In view of the mentioned circumstances, the stream of capital from the FRG to the joint enterprises still does not satisfy existing capabilities and interests. Here, of course, they recognize the importance of such a form of cooperation. However, some partners in their own far-sighted way are creating a certain limited "springboard" for the future; others are looking closely at, testing and biding their time. It is still possible to count on one's fingers those who on the West German side have undertaken the task with genuine enterprise along the most promising avenues—the enterprise of which today's business world is capable. They were not silent about this in Cologne.

The West German discussants often mentioned the condition of our economy as one of the reasons for this restrained approach. However, it is business people that understand better than anyone else that the economic reform and the adjustment of the new economic mechanism are a process that involves much work; you will not complete it in one day. Seemingly, two opinions on this score did not exist among the seminar participants. The fact that they were not unanimous regarding the progress of restructuring itself is a different matter. They often say that economics affects politics; however, political development reference points are also evidently important for economic circles. That is why it was no accident that serious attention was devoted during the seminar to analyzing the development of the restructuring process in the Soviet Union. The main report by (L. Von Vartenberg) pointed out the very important significance of economic cooperation between the FRG and the Soviet Union. He called it the indicator and barometer of the political dialogue between the East and the West and an essential element in strengthening trust between them.

(L. von Vartenberg), a Christian Democratic Union Bundestag deputy and parliament state secretary of the FRG Ministry of Economics until recently who has just become

secretary of the federal association of German industry, has pointed out the depths of the processes of restructuring and economic reform in our country. In his words, they have brought radical changes to the Soviet foreign trade system and practices, and the "general preconditions for successful cooperation are extremely favorable." His main conclusion is as follows: "Despite all the pessimists" the reform process in the Soviet Union has acquired self-acceleration and irreversibility. (Vartenberg said that that is why "in evaluating with all soberness the capabilities that have been revealed, we must use the existing chances, demonstrating an open and constructive approach to the task."

Other forums, which are examining joint enterprise problems, are also being conducted in the FRG. As its participants told me, the Cologne one attracts them primarily because of its practical purposefulness. (Rudolf Lauf), one of the directors of the German MTP group, has posed this task from the very beginning. That is why the seminar organized by this enthusiast is seemingly constructed of three blocs: analysis, information and experience. A subsequent meeting is already being planned for next spring.

The discussion in Cologne has turned out to be more frank, interested and specific than a year ago. This is the impression of (Lauf) and a number of other seminar participants who have had an opportunity to compare. Many potential partners in joint activities were present in the Reynskiy Hall auditorium. They got to know everything in detail. The series of reports and communications embraced a wide subject matter. The discussion concerned Soviet laws and administrative acts connected with the activity of joint enterprises; the drawing up and content of contracts for forming them; and questions concerning the financing, guarantees and insurance of joint firms in the USSR. The leading representatives of joint enterprises, who had already developed production activity, talked about their experiences impressively. Whereas during the previous seminar difficulties and complaints were almost completely laid down on our score, the appraisals and views were more weighty now and a certain self-criticism was present.

Joint enterprises are usually called the highest form of cooperation when production equipment, finances, people, and interests are linked together in them. The seminar noted with satisfaction the rapid expansion of the legal bases for the activity of joint enterprises in our country. The business world is attaching especially important significance to the agreement on protecting and assisting investments, which was signed this summer during a Soviet visit at the highest level to Bonn. It removes many past reservations and will undoubtedly contribute to increasing capital investments in joint enterprises. During an analysis of the legal area, it was pointed out that the preparation and signing of agreements on establishing joint firms are now occurring significantly more simply and rapidly than previously. During the seminar, they described the beginning of the implementation of the program for training management and skilled

workers, which is being implemented in accordance with an agreement between the two countries, as an important item.

(K. Khaazis), a member of the Salamander firm's management board, said that Lenvest in Leningrad had moved to the stipulated first stage of production—a million pairs of shoes a year. The firm's organizational and regulatory structures are functioning well. Labor productivity is increasing although it is not what one would like since many workers are still not accustomed to Western tempos. Generally speaking, (V. Tvardtsok), board chairman of the Shiss machine building firm, gives a positive rating to joint activity. It has two joint enterprises with us. One of them—Sedinshiss, which produces machine tools in Stavropol—has provided quite a bit of profit during the first year of its existence.

It is clear, however, that there are more than enough difficulties of various types in the joint enterprise area. They said during the seminar that impediments of a bureaucratic nature, which are connected with the granting of visas, travel about the Soviet Union and delays in registering new firms, are more and more letting themselves be felt. The main item is the difficulty in acquiring equipment on the spot and in getting a supply of raw materials. This causes delays from the start of production and sometimes makes it feverish. At the same time, it was also pointed out that the West German partners themselves do not always plan a program for future joint activity in a thoroughly sound manner. They do not have sufficient knowledge of local conditions and peculiarities and do not trouble themselves about a solid currency base to the required degree. (Yu. Sengera), a board member of one of the large West German banks, talked about this in particular.

In Lenvest, our partners are preoccupied with providing raw material of the required quality and with the quality of the output itself. (V. Tvardtsok) pointed out these problems. In his words, a portion of the Soviet produced component parts had to be returned initially for reworking two or three times. However, he continued, this does not mean that the joint enterprise is one concern: "The fact that one can discuss all problems with one's Soviet partners under the conditions of the new policy is a positive phenomenon and is already half-way to success."

It is noteworthy that a search for solutions to overcome the difficulties occurred during the seminar. Ideas and recommendations were expressed. For example, 20-30 percent of a joint enterprise's products are sold in the Western market place through the sales network of the Western partner in order to strengthen the currency base of this or that joint enterprise.

The atmosphere and content of the Cologne forum illustrated the indisputable interest and constructive approach of its participants to the new forms of cooperation. Here, they did not try to overexaggerate the role of these enterprises in the Soviet economy; they proceeded from the fact that the economic reform and the labor of the Soviet people will primarily determine their expansion. At the

same time, however, they also pointed out the obvious importance of joint enterprises both for the Soviet and for the West German partners. The seminar reflected the fact that joint enterprises are being implemented, building up the fabric of relations between our countries. Of course,

there is still a wealth of work in this area. However, the matter is progressing and its prospects are by and large subject to no doubt, requiring from both sides—as was said in the Reynskiy Hall—good will, patience, flexibility, and the ability to see the future.

**SFRY Foreign Secretary on Non-Alignment,  
European Integration**

*18/20005 Moscow NEW TIMES in English No 40,  
3-9 Oct 89 pp 16-18*

[Interview with Budimir Loncar, Federal Secretary for Foreign Affairs of Yugoslavia, by Vitaly Ignatenko, New Times Editor-in-Chief: "We must feel the pace of changes"; Belgrade, September ]

[Text] Before the interview began a new correspondent of the magazine, Gennady Sysoyev, was introduced to the federal secretary, Vladimir Grishny, who completed his four-year tour of duty in Yugoslavia, also arrived in the foreign ministry on that day to thank its officials for their assistance in his work.

This led to an interesting conversation and questions. The federal secretary asked Vladimir Grishny where he studied the Serbian language, whether he was satisfied with his work as a correspondent over the last four years, and what he was going to write about in the near future.

Speaking about himself, Budimir Loncar noted that his appointment to the post of Federal Secretary was not accidental, but it was not planned. It was not accidental because Loncar worked all his life in the diplomatic service, and it was not planned because all the stages of his career should not have led him necessarily to this top post.

It is probably a trait of my character that I easily establish contact with other people, Budimir Loncar said, and in this sense I am glad that this trait helps during my meetings with foreign officials.

The most difficult thing in my work is to ensure that diplomacy constantly keeps pace with changes taking place in the world, Loncar pointed out. We must feel the pace and not lag behind these changes. Diplomacy should be deeply involved in all the world changes. At the same time, it should not be divorced from the reality of its own country. I am fully satisfied with my work when I feel that people holding different views have been able to achieve friendship and understanding. Budimir Loncar said in conclusion.

The following is the transcript of an interview granted by the federal secretary.

The ninth non-aligned summit conference recently ended in Belgrade. How do you assess its results? In what lies the main task of Yugoslavia as chairman of the non-aligned movement? Do you think the role and priorities of the non-aligned movement have changed in view of the changes that have taken place in the world over the last few years?

First of all, the conference urged the non-aligned movement to respond to present-day demands and the present world situation. In this sense the hopes placed in it have been justified. Taking a broader look, it can be said that the results of the conference have surpassed all expectations.

Two thirds of the states took part in the conference. In the course of its deliberations and in the final declaration which has exactly summed up the discussion the participants examined the current major changes in the international scene and supplemented the conclusions with their vision of the world. I have in mind the countries of the South which do not deny positive developments in international relations, seek to understand the world in its interdependency, and get a more real view of it.

What is implied by "their vision of the world"?

I would name as an example six priorities mentioned in the declaration: peace, disarmament and a peaceful settlement of disputes; international economic relations; the right of nations to self-determination and independence; environmental protection; human rights and freedoms, and the U.S. activity.

All these questions command the attention of the world community. The non-aligned nations make it clear, in the declaration of the summit conference too, that they support all positive changes. These changes include, among other things, the search for a world balance on an all-round basis, a balance that will also affect the present dramatic situation in the economic and social fields and, hence, political and economic detente.

The decisions adopted by the conference should now be translated into practice, materialized in clear forms of activity along the lines agreed on by the non-aligned nations. It is important therefore to keep the new process going, enhance the democratic spirit, and maintain the present rhythm of work so that optimal solutions could be found. The coordination and implementation of agreements and concrete participation in world affairs will require of Yugoslavia intensive efforts during the three years of its chairmanship of the 102-nation movement. But such is precisely the main task of Yugoslavia.

I would reply briefly to the third part of your question: the changes are appreciable indeed. They have not come out of the blue. The non-aligned movement also helped to bring them about. The changes have impelled the movement to take a new look at the world and revise its own positions.

Yugoslavia is an European country and you know this better than I do, there are a lot of problems in our continent. Doesn't the political leadership of your country sometimes have to choose between Yugoslavia's interests in the non-aligned movement and its interests in Europe?

A special ability to combine the two "roles" is hardly necessary because they are interconnected and harmonize with the present-day European realities. In the past, it was apparently considered an anachronism. But even then Yugoslavia was not faced with the dilemma: what shore to head for to achieve its interests. Yugoslavia is an European non-aligned country and its interests combined the European and non-alignment factors.

Now that we mentioned the past I would illustrate the "two Yugoslav roles" by one example. It is not accidental that the first non-aligned conference took place in Europe.

In Belgrade, though practically all other participants represented the Third World, Yugoslavia was involved in the new movement from the very outset. This was made possible thanks to the role of Tito and the fact that our country had been requested to organize the first major forum. The following important fact should also be borne in mind: precisely in Europe, practically at the junction of two world blocs it was possible to state most convincingly what the new movement actually strives for, what it offers and demands of others. Thus, Europe and the non-aligned movement have never excluded each other.

It becomes increasingly evident today that the train of economic integration is picking up speed. Missing this train is a sad prospect for any country. How is Yugoslavia tackling this task? What changes have occurred recently in its relations with European economic groups?

No country evidently wants to miss the train of economic integration. All of them are trying to catch it. But please note: those who draw up the train schedule must think well how an ever larger number of countries missing this special-purpose train can affect its movement.

Neither industrial states nor economic groups are clearly interested in a further widening of the gap between, say, the European Community, the European Free Trade Association and other organizations, though each of them is interested in retaining its advantages. Industrial states would lose first of all markets for their goods just as railways would suffer losses from the reduced number of passengers.

We in Yugoslavia understand, of course, that we should watch changes in the "train schedule." We are on the road of economic and social reforms, orientation on the market and an improvement of the quality of our goods. This helps us to keep us with the relations shaping in Europe today.

It is true that the political climate in Europe is changing. The concept of a peaceful all-European home is today supported by the majority of countries in the continent. Could you describe in more detail what place Yugoslavia will take in a European home?

The positive trends of European development fully meet the interests of Yugoslavia. Our country has always come out for peaceful coexistence, against the artificially created barriers and prejudices, for a parallel development of different systems and orientations—in short, for a European home in which every country preserves its identity, but all of them mutually cooperate on the reliable basis of their common interests. An all-European home has long existed in our vision of the world. Today, when more and more countries are willing to invest in the construction of this home, our goal is assuming concrete outlines. We are now closer to the realization of our own dream, and there are no reasons we should feel comfortless in such an environment. I would say that an all-European home is our natural environment.

Yugoslavia sponsored the first meeting of foreign ministers of the Balkan states. Other meetings took place after

the Belgrade forum. This indicates that the dialogue in the Balkan Peninsula is gathering strength. How do you assess the present state of cooperation between Balkan countries and what are the prospects of expanding it? What concrete steps should be taken for this purpose?

Forty more meetings at various government levels were held after the Belgrade forum. However, it is not only a matter of the number, but, as you have noticed, of something more substantial. The Balkan countries understand that they must take part in the current positive processes in Europe. This is a starting point in the evaluation of the present international situation. Some countries are vacillating. But can you expect them to overcome the legacy of the past overnight? The fundamental goals must not be called in question. Multilateral cooperation between Balkan countries ensures them a worthy place in Europe and facilitates the solution of their problems. This cooperation beneficially influences neighboring states. It's an earnest of political progress in Europe. The Balkan countries are also discussing questions on which they hold different views: for instance, a Balkan summit conference, different zones, national minorities and humanitarian aspects of multilateral cooperation. We may not agree on everything beforehand. But we shall discuss problems and cooperate. This in itself is a positive evolution which inspires optimism with regard to the future of Balkan interaction.

Each Balkan country should take more steps in its own yard for a further common progress. This means that, defending our national interests, we should see things in their broader perspective. I have in mind our common responsibility for the future of peace and security in the Balkans as an integral part of Europe.

In his speech in the Federal Assembly of Yugoslavia last year Mikhail Gorbachev set out a programme of confidence- and security-building measures in the Mediterranean. What situation is taking shape there? When can the Mediterranean be really called a region of peace?

As fate willed it, Yugoslavia is linked with the Mediterranean, the Mediterranean with Europe, and Europe with the world. It is an elementary logical connection owing to which the security of Yugoslavia is inseparable from the security of the Mediterranean, Europe and the world. The traditions, cultures, systems and levels of development of the Mediterranean countries are not more diverse and contradictory than those of other countries. But, I would say, the Mediterranean diversity and discord are concentrated and expressed more clearly. Unfortunately, the peoples living in the Mediterranean are still opposed to each other. The call to make the Mediterranean a region of peace raises a noble task before them—one of strengthening the feeling of unity.

There are two preconditions with a common denominator for making the Mediterranean a region of peace. Firstly, all countries of the region should work to ensure that the striving for peace and cooperation finds expression in concrete deeds and positive processes. Secondly, the situation in the region must not be influenced by extraneous

factors. A reduction of armed forces would be very beneficial for the Mediterranean situation.

The socialist world is going through a difficult period of reconstruction and reform. How can its potential be revealed more fully. How do you visualize the future relations between socialist countries?

The free choice of socialism can in no way be questioned if we agree that it arose as the necessity of changing human society for the better. We can only ask why socialism has found itself in a situation when it should be made more attractive. I would say that however different the ways of building it may be, socialism has encountered an obstacle the existence of which it has almost forgotten, but which is in effect its initial purpose and ultimate goal. Paradoxically enough, this obstacle is man with his wishes, needs and immense potentialities. It turns out that the advantage of socialism has become its problem. Indeed, socialism is now in crisis, but in spite of difficulties it is encountering, it has not lost its historic battle and prospects. Socialism can find its future in new material and spiritual values. This is precisely what socialist countries are now searching for, each in its own way, first of all through economic and social reforms.

As for future relations between socialist countries, there are no reasons for lessening mutual cooperation because of the difficulties each of them will surely encounter for a long time ahead. But there are no reasons either for the promotion of cooperation at any cost, first of all because of some "ideological loyalty." The way of imposing cooperation is not fruitful, the more so that, thanks to reforms and reappraisal, each country (and this is objectively so) feels more sovereign and free of any commitments predetermined earlier.

In the opinion of both parties, the Soviet-Yugoslav relations are developing successfully on the whole. But there are definitely unsolved problems and untapped reserves in this sphere too. How do you see them in Belgrade?

It is true that the Yugoslav-Soviet relations are stable and have been successfully developing for a long time. In other words, our friendship has a real content. It is true, however, that some problems of an economic, not political, character do exist. We know these obstacles, but, I think, they can be removed and should be removed in spite of difficulties our countries are grappling with. You have mentioned untapped reserves. I would add to this the mutually complementary character of the economies and creative potentials of the Soviet Union and Yugoslavia. This should result in a further all-round development of economic relations.

Yugoslav newspapers often note that the international prestige of their country depends to no small extent on its internal stability. Do you agree with such a statement? How would you describe the present situation in Yugoslavia?

I fully agree that the international prestige of each country depends to a large extent on its internal stability. For this reason Yugoslavia's internal difficulties are reflected on the international plane.

The feedback between domestic and external factors is today felt more tangibly than in the past, and this refers not to Yugoslavia alone. This is so because the world has become interdependent horizontally and vertically and, I would say, more deeply, reaching the social structures of each country. In this way the world tendencies become increasingly decisive for the solution of domestic problems just as the internal situation of countries increasingly influences the world tendencies on the whole.

I would describe the situation in Yugoslavia as follows: economic difficulties and reforms, social changes and general democratization, the released energy and complex problems which are created by any, even most positive processes.

I know that you are going to the U.S. General Assembly in New York. With what feeling were you preparing for the General Assembly session in New York, where you have worked many times as a member of the Yugoslav delegations at the United Nations?

I would describe it as hope. This is most important, to my mind. The United Nations has gone through three periods in its development and by all indications it could enter the fourth one. The first period is connected with the founding of this international organization and the adoption of its charter. It was an event of tremendous importance. In subsequent years international conditions for an event of this kind did not exist.

In its second period, the United Nations became, unfortunately, paralyzed because of the cold war and super-power confrontation. But it proved so viable that it survived the hard time which, I hope, will not be repeated.

At present the United Nations is in the third phase of its development characterized by negotiations and agreements between great powers, first of all between the Soviet Union and the United States. We are witnessing the revival of the role and significance of the United Nations. The atmosphere of dialogue increasingly prevails in the organization and its contribution to the settlement of some regional conflicts is quite valuable.

Preparing for the General Assembly session, I want to note that, apart from the importance of questions included on its agenda, of no less importance will be bilateral meetings between member states. In other words, the role of the United Nations as a venue for mutual contacts is highly significant. If the relaxation of international tension becomes irreversible, the United Nations could enter the fourth phase when it would not only discuss problems but also solve them. Let us hope that this time will come.

Thank you for the interview.

### **Yugoslav Federation Faces Constitutional Challenge**

90U10032 Moscow *PRAVDA* in Russian,  
9 Oct 89 Second Edition p 6

[Article by Ye. Fadeyev, *PRAVDA* special correspondent:  
"A Gordian Knot?"]

[Text]

#### **National Conflict in the Socialist Federal Republic of Yugoslavia**

**Belgrad**—Another dramatic act is playing today on Yugoslavia's uneasy political stage which has been shaken recently by many conflicts and disagreements. The site of the action is the republic of Slovenia, one of the most developed in the Socialist Federal Republic of Yugoslavia.

Some time ago, Slovenia's constitutional commission proposed 68 amendments to the republic's basic law. When they got to the Presidium of the Socialist Federal Republic of Yugoslavia, they had the effect of an exploding bomb in the collective organ of state management. A number of the amendments were considered contradictory to the constitutional structure of the Socialist Federal Republic of Yugoslavia and disruptive of the parity between the common rights and duties of the republics and autonomous krays included in it.

You see, these amendments envisage that Slovenia will be able to not implement a number of union laws and that the activity of union agencies will be limited on its territory. The amendments provide the capability to leave the federation upon the republic's own decision. State agencies will only use the Slovenian language and the members of the Presidium of the Socialist Federal Republic of Yugoslavia from Slovenia are obligated to be guided in their work by the republic's constitution. The federation is deprived of the right to declare a state of emergency in Slovenia.

The Presidium of the Socialist Federal Republic of Yugoslavia has convened twice on this matter. Considering that these amendments could have dangerous consequences for Yugoslavia's future and its constitutional system, this federal agency requested Slovenia's Skupshchina (parliament) to put off the review of the amendments. Socialist Federal Republic of Yugoslavia Skupshchina delegates also urgently discussed the situation in Ljubljana. Their conclusion runs as follows: Slovenia's constitution opens the way to national isolation and separatism.

A special plenum of the Central Committee of the League of Communists of Yugoslavia also discussed the political aspects of this event. Having begun its work after noon, it only completed it early in the morning of the next day. During the stormy nighttime debates, a decision was adopted which recognized the right of the Slovenian people, just as all other peoples and nationalities, to decide on changes in their republic's constitution; however, when doing this, it was pointed out that their right and duty—along with those of the other peoples and nationalities—should be exercised to strengthen Yugoslavia as a union

power and as a democratic socialist federal association in accordance with the constitution of the Socialist Federal Republic of Yugoslavia.

The decree of the Central Committee of the League of Communists of Yugoslavia also contained an appeal to Slovenia's communists to refrain from adopting the questionable amendments. Despite all this, however, Slovenia's Skupshchina delegates are refusing to consider the comments and recommendations, considering them "pressure from the center on a sovereign republic." Slovenia's parliament is unanimously approving all the amendments proposed previously.

Whereas Yugoslavia's disturbed public, which has assembled during these autumn days in many thousands of protest meetings in Chernogoriya, Serbia, Macedonia and Vojvodina, are scandalized: "Yugoslavia is one and inseparable." The following words rang out under the arches of parliament in Ljubljana: "No one else has the right to decide for us whether or not to change the Slovenian constitution." The Slovenian national anthem sounded for the first time in the local parliament in an official situation.

What has guided the republic in taking these steps? Here is an extract from the speech by M. Potrč, chairman of the Slovenian Skupshchina: "The addenda to the constitution will not disrupt the unity of Yugoslavia as a free, democratic and equal alliance of peoples and nationalities. We are confident that the proposed amendments satisfy the true hopes of the working people and all citizens of Slovenia. The adopted addenda to the constitution will establish conditions for political pluralism in Slovenia." M. Kuchan, chairman of the Presidium of the League of Communists of Slovenia, (a plenum of the republic's Central Committee, which ran counter to the line of the Central Committee of the League of Communists of Yugoslavia, was held in Ljubljana) declared that the republic's communists could not put off the adoption of the amendments since this would mean the separation of the party and the Slovenian people.

In the opinion of several columnists, the situation, which has taken shape, has positive aspects also: Whereas the leadership of the League of Communists of Yugoslavia wants to cut the "gordian knot" of problems, it should immediately include on its agenda the question of the real causes of the crisis. The following viewpoint is also being expressed: Slovenia's constitutional amendments are only the tip of the iceberg of uncoordinated positions among the leadership of the League of Communists of Yugoslavia concerning the nature of the Yugoslavian Federation, democracy, and socialism itself in the Socialist Federal Republic of Yugoslavia,...

How should it be? Who is right in this unprecedented discussion? By a majority of votes, the delegates of the Skupshchina of the Socialist Federal Republic of Yugoslavia decided to request Yugoslavia's constitutional court to review the situation that has taken shape around the questionable amendments. Another dramatic turn of events! Therefore, the court now has the final word....

The fact is (the Yugoslavian press is now writing about this) that, although the constitutional court is the only competent agency for evaluating such a situation, it only acquaints the Skupshchina of the Socialist Federal Republic of Yugoslavia with its opinion as to whether the constitution of a republic or an autonomous kray diverges from the country's highest state act. In other words, it only determines the divergence between republic or kray laws and the union law. As is known, however, its decision does not have any binding nature. It does not have at its disposal any legal measures to eliminate the contradiction.

In the opinion of Yugoslavian newspapers, we are talking in this case about a legal flaw which practically ties the hands and feet of the constitutional court; it only remains for the Skupshchina of the Socialist Federal Republic of Yugoslavia to turn to political appeals. Nevertheless, the VIYESNIK newspaper, for example, points out that one can expect the initiative, which is connected with the appeal to the constitutional court, will contribute to the relaxation of fears.

**Hungarian Economic, Political Reforms Described**  
*18070765 Vilnius SOVETSKAYA LITVA in Russian*  
*19 Aug 89 p 3*

[Article by A. Veniaminov, columnist, SOVETSKAYA LITVA: "Hungary: Choice of a Model"; first paragraph is SOVETSKAYA LITVA introduction]

[Text] Reader Ye. Saunorene from Vilnius writes to the editorial board: "Our press, including SOVETSKAYA LITVA, has very sparingly reported on the process of changes taking place in Hungary. I would like to find out in more detail what is happening in this country."

The first thing that was striking was during a recent stay in Budapest was the boiling of political passions. In the center of the capital, where, perhaps, the most lively "patch" of Budapest is the Belvaros, behind numerous small tables of various cafes, carried out directly on the sidewalks during these warm days, stormy discussions do not die down. They flare up in public transport, one can hear them within the walls of institutions and behind family tables.

And newspapers? Even we, who had already taken a deep breath of glasnost, were still not quite used to the freedom with which political and state figures of the highest rank are assessed and characterized in the local press. The opposition is heard increasingly loudly. But even in the ranks of the ruling Hungarian Socialist Workers' Party itself, a sufficiently hot polemic is going on. At the center of attention were questions of the renewal of socialism, the search for the future model of development, which, being socialist, at the same time would, to the maximum degree, take into consideration the specific characteristics of Hungary, which were generated by the historical peculiarities of the country, by the realities that have taken shape in the arrangement of the political and social forces, and by the level of economic development.

Two decades ago, the Hungarian People's Republic was the first among the fraternal socialist countries to begin the

implementation of an important economic reform: it decided to create a market socialist economy. The present chairman of the Hungarian Socialist Workers' Party, Rezső Nyers, incidentally, is considered one of the "fathers" of the economic reform of that time. A step was taken toward the repudiation of the extremely centralized leadership of the economy and the rights of labor collectives in production planning and wage distribution were expanded. Later the largest enterprises were granted the right of direct realization of foreign trade, individual and family labor activity, as well as lease in trade and public catering were allowed. Alas, all of these measures had a half-hearted and inconsistent character, and the independence of the enterprises was quickly reduced to nought by the absence of an adequate economic environment: a market. Moreover, the administrative interference of the command-bureaucratic system so well known to us gradually choked off all sorts of innovations on all levels. It ended with the fact that the inspirers of the reform, including R. Nyers, were removed from the leading posts.

All of this led to a socio-economic crisis. With every year, the out-of-date structure of the economy and the abundance of non-profitable enterprises had an increasingly great effect. Moreover, there was an increase in the influence of such a factor as foreign debts, which came to almost 14.5 billion dollars. For the liquidation of credits and the payment of interest on the debt alone, 3 billion dollars are spent every year. The shortage of financial means is experienced everywhere. Even enterprises manufacturing export products do not have foreign exchange for the purchase of modern equipment. Few funds remain for the solution of the most urgent social tasks. Inflation reached 18 percent in 1988.

Shortcomings in the sphere of foreign trade play a considerable role in the aggravation of crisis phenomena in the Hungarian economy. For a number of Hungarian commodities, because of their technical imperfection and quality, it is difficult to make their way in the markets of the capitalist countries. What is more, even in the trade with the CEMA partners, including the Soviet Union, difficulties arise. Thus, already now the Hungarian People's Republic has an active balance of 366 million rubles in its trade with us, which has induced the Hungarian side to reduce export to our country. In order to solve the problem, as Tamás Bek, the minister of foreign trade of the Hungarian People's Republic, says, attempts are being made to intensify efforts in the search for new trade partners in the USSR, in particular, the possibility is being investigated to have their own trade representations in various regions of the Soviet Union, including in the Baltic republics. In passing, T. Bek advised on the administrative-bureaucratic barriers, on which one has frequently has the occasion to stumble when the establishment of direct relations with Soviet enterprises is being discussed. This is, in particular, what happened when the Hungarian side attempted to organize joint production with the Lithuanian "Linas" enterprise. It seems, that in the very near future, in proportion to the transition of the republics of the Baltic to full khraschet, these artificial difficulties will cease to exist.

Here, perhaps, is the right place to talk about the hopes which were nourished by many in Hungary (as, however, also in Poland), especially in opposition circles, for financial assistance from the West. They hoped that the United States would lead the way, which would have a fit of generosity something similar to the post-war Marshall Plan for Western Europe. They supposed that corresponding overtures would be made by U. S. President G. Bush during his recent trip to Warsaw and Budapest.

As is well known, nothing of the sort happened. Being generous with his compliments about the democratic transformations being carried out in these countries, the American President was very stingy with his promises. As a result, instead of the desired billions of dollars, figures were mentioned which have, even according to the assessments of the Western press, a symbolic character.

It is clear that the economic difficulties limit the freedom of maneuver in the sphere of politics. But at the same time, they insistently urge the soonest possible adoption of political decisions, which, in particular, would open the road to urgently necessary changes also in the economic sphere. Heated discussions about these questions have been going on in the ranks of the Hungarian Socialist Workers' Party for a long time. Thus, some time ago, a new movement—"reform circles"—appeared within the party, a movement which advocated the most radical reforms. People associate the formation of these circles in many respects with the name of Imre Pozsgay, who gained popularity with open, uncompromising struggle against the "Stalinist model" and its adherents. It was Pozsgay who was one of the first to advance the thesis that the tragically contradictory events of 1956 were "a popular rebellion."

Quite a few members of the Hungarian Socialist Workers' Party, whom the "renovationists" call "conservatives," are not in agreement with this and with a number of other innovations. These people object to the decision on the introduction of a multi-party system and against the new assessment of the events of 1956; they are convinced that the political structures in the country are good, and the problems have arisen because of the weakening of ideological or cadre work. Many of such dissenters have taken the extreme step and left the ranks of the party.

The final touches are to be put at the 14th Congress of the Hungarian Socialist Workers' Party, which is planned for the beginning of October. It will clear up the arrangement of forces in the party, develop its strategy for the immediate future, and formulate a platform with which it will meet such a forthcoming difficult trial as the parliamentary elections. Finally, it will assess the structural and cadre changes that were made at the June (1989) Central Committee Plenum of the Hungarian Socialist Workers' Party.

At the plenum the former Politburo was abolished, and in its place a Political Executive Committee consisting of 21 members, was created. Party officials of the new formation, managers, and representatives of creative and scientific circles went to make up its membership. Another

innovation is the formation of the Presidium of the Hungarian Socialist Workers' Party consisting of four people. Rezső Nyers, the minister of state, also elected as chairman of the Hungarian Socialist Workers' Party, Károly Grosz, the general secretary of the party, Miklós Németh, head of the government, as well as Imre Pozsgay, who was simultaneously recommended to the highest state post of president of the Hungarian People's Republic became its members. In the words of R. Nyers, the new collegial organ combines four leaders of the Hungarian Socialist Workers' Party, each one of which has followers both within the party and outside it. We will add that Nyers himself is considered as the chief connecting link between the representatives of the various currents within the Hungarian Socialist Workers' Party. His reasonable and moderate views, his equi-distance from the extreme points of view are regarded as an important pledge of unity in the party leadership.

With all the diversity of views and assessments in regard to the existing situation in the country, the majority of Hungarians agree that, in order to find a way out of the present crisis, the consolidation of all forces of society is necessary. Hence—the slogan of pluralism. In the economy in particular, this signifies the diversity of the forms of property, in the political sphere—the coexistence of the Hungarian Socialist Workers' Party with other parties.

The first important practical steps have been taken in the realization of these goals. The intervention of the state in economic life should be implemented only through normative regulation and through credit and financial levers. Already from 1 January of this year, there are no limitations in the organization of non-state enterprises of almost any profile. Henceforth state, cooperative, and private property can be combined in one "package." Private entrepreneurs are allowed to hire up to 500 workers, and the transfer and sale (up to 100 percent of the shares) of enterprises to foreign capital has been sanctioned. The question of putting a stop to the activity of unprofitable enterprises, with all the consequences resulting from this, has been acutely put.

It is no secret that many, including in the ranks of the Hungarian Socialist Workers' Party, have come to regard such innovations not as a change of socialism, but as the repudiation of it. Apropos of this, R. Nyers declared recently, appearing before the employees of the central organ of the party, the newspaper NEPSZABADSÁG, that the issue is a system based on a market economy and parliamentarism, but socialist in its essence. This is not recapitalization, not the creation of an economy of the capitalist type, he emphasized. In his words, the process that is taking place can be characterized in the following manner: Hungary is moving along the democratic road in the direction of forward-looking [perspektivnyj] socialism.

As far as the opposition is concerned, it is today very variegated, splintered, and besides seized by the distinctive "infantile disorder" of democracy. This is the abundance of new parties and the diffusion of their platforms, which frequently are very similar. This is the at times

sharp tone, the intolerance, which takes the shape of at times provocative statements. Criticizing all and everything, the members of the opposition rarely put forward any positive alternative ideas. At the same time, the impression is such that the mass of Hungarians regard the abundance of parties with skepticism and humor, do not especially trust them, and, if they fear anything, then it is extreme radicalism.

Thus, ahead lie two important landmarks, which can become fateful for Hungary. This is the forthcoming congress and the elections. Not one of the opposition parties have come even close in terms of number to the Hungarian Socialist Workers' Party. For this reason, if the congress develops a program corresponding to the spirit of

the time and consolidates the ranks of the communists, they will have every reason to count on favorable results for them in the elections. Moreover, if we will not gain an absolute majority, the secretary of the Central Committee of the Hungarian Socialist Workers' Party, Ene Kovacs, says, the political forces will hardly be found which would decide to form a coalition without our participation. In the opinion of E. Kovacs, it is most probable that after the elections a left or left-center coalition will be formed, based on a solid parliamentary majority. As history shows, he emphasized, in the critical moments of a change of epochs, only a leadership united on the basis of the broadest inter-party cooperation is capable of leading the country out of the difficult situation.

### Improvement of Relations Between USSR-Chile Anticipated

90U10027 Moscow *IZVESTIYA* in Russian, 7 Oct 89  
Morning Edition p 5

[Article by K. Khachaturov: "Chile: A Hot Summer Ahead, the End of the Military Dictatorship Is Approaching"]

[Passage omitted] Santiago-Moscow—The Human Rights Commission building is the repository of much sorrowful testimony on the "internal war" that the dictator has declared against his own people. One of the commission directors—my good friend (Maksimo Pacheko), the first Chilean ambassador in Moscow since the restoration of relations between our countries during the mid-Sixties—says that the military junta has set a record for inhumanity even in Latin America's bloody history. Despite official propaganda statements, the authorities continue to intensify their crimes. I have in my hands the latest monthly report published by the commission entitled "The Situation With Respect to Human Rights in Chile." It is clear from it that the authorities committed 1,342 illegal acts during the first four months of this year and that the number of human rights violations grew by 27 percent in April as compared to the previous month. [passage omitted]

Even official statistics admit that 496 political prisoners have now been condemned—mainly by military tribunals. Of these, 11 individuals were sentenced to death, 13—to penal servitude for life, and 25—to 15 or more years in prison. More than half of the prisoners were held for preliminary investigation from two to six years. All of them were subjected to torture.

The Chilean reality abounds in daily paradoxes. According to external signs, you would not say that what is perhaps the most repressive regime on the planet has entrenched itself in a country with a "crazy geography" subject to earthquakes and stretching in a narrow elongated strip between the Cordilleras and the Pacific Ocean. Military and police uniforms are not seen on Santiago's streets. When necessary, however, the reaction of the punitive "rapid deployment forces" is instantaneous.

Reinforced details only patrol the military junta's headquarters which is fenced in by a cement wall and larded with parabolic antennas. Nearby is a small movie theater where they show journalists the short documentary film "The Children of September." For the first time since the putsch and on the eve of its next black anniversary, the hero of the film, Salvador Allende, is on the screen. Those, who were children at the time, tell the viewers about their experiences. The creator of the film, Sergio (Marras) says that censorship, on the one hand, did not take the risk of banning the picture but, on the other hand, gave it the category of "forbidden to be shown to persons younger than 21" (this recommendation usually accompanies pornographic films), which prevented it from being shown on television. The grimaces of the censors are a mirror reflection of the daily maneuverings of the authorities.

"Where is Chile going?"—this burning question is on the lips of the majority of people today.

The resistance of the Chilean people—miners, students, peasants, and the unemployed—which has secretly matured literally since the day of the military coup, has provided its own perceivable results. Previously banned political parties were legalized in 1987—true, with the exception of those that formed the backbone of the People's Unity bloc. A year later, Pinochet suffered a crushing defeat as the result of a plebiscite—they deprived him of the right to "elect" himself president in the future. A year later, the next plebiscite—on reforming the Pinochet constitution—blunted its anti-democratic cast.

The country is living for the coming 14 December elections—the first in almost two decades. They will be general elections, that is, a president and members of the National Congress will be elected. The court Party of National Renewal, which has been hastily knocked together by Pinochet, has counted on Hernan Buchi, the 40-year-old former minister of finance.

The transnational monopolies and junta have invented the myth of a Chilean "economic miracle" where a supposedly general obedience is combined with "freedom" for private enterprise. The so-called "Chicago School" has dictated these prescriptions. Pinochet's candidate, Buchi is one of the supporters of this theory and a protege of the financial and landed oligarchy.

One must admit that the stores in Chile abound with every possible product and that the increase in the national economy exceeds the average Latin American indicator, which is below zero, severalfold. Besides the traditional mining industry products, the country exports a great deal—from computers to pine sticks which replace forks in Asian countries. They explain the economic renewal by the unprecedented stream of foreign capital into the denationalized branches of the economy, by the increase in prices in the world market for its main export commodity—copper, and by the production and export of weapons and military equipment and not by the regulated merciless exploitation of the workers. These have not experienced the "economic miracle" in any manner.

Almost every other Chilean is on the edge of poverty. Necessity drives people to the large cities where they fill up the ranks of the unemployed. The merchants of simple folkcraft items, who are located on the sidewalks with a cultured appearance, are a poorly masked form of begging. A squalid train of overgrown settlements stretches from the airport to the center of Santiago. Hundreds of thousands of Chileans are deprived of shelter and less than 40 percent of the children receive a primary education. The sides of the hills, on which the second city in importance, Valparaiso—has spread out, are dotted with slums. In translation, this means a "heavenly valley". The illusory nature of the "economic miracle" is one of the main reasons for the government's unpopularity and the increase in sympathy for the opposition.

The main opposition forces have created an Association of Political Parties for Democracy. This coalition of 17 political parties has put forward (Patrício Evlyn), a 70-year-old lawyer and leader of the Christian Democratic Party (CDP), as a candidate for president. He has been chairman of the Senate, who at one time shattered the National Unity and who hastened to declare after the military putsch: "The armed forces have prevented a bloody revolution by Marxists." Chile has changed since that time and (Evlyn) has evidently changed also. That is why the Communist Party has supported his candidacy. The Communist Party of Chile itself is not included in the "bloc of 17" but in another opposition coalition—the United Left. In this capacity, communists have received an opportunity to vote in the National Congress.

(V. Teytelboym), the leader of the Communist Party, said in his modest single-story home in Santiago near the Cordilleras spurs: "We, the party, having suffered very large losses after the fascist coup, did not have the right to reopen old wounds of wrongs and were prepared to cooperate with all anti-Pinochet forces. The time had come not to scatter rocks but to collect them."

The left-wing forces, unfortunately, have not gotten rid of the chronic illness of interparty disagreements.

A portion of the members of the Socialist Party, who have professed social democratic principles and who are headed by Clodomiro Almeyda—the former minister of foreign affairs, have broken away from the Socialist Party which takes Marxist positions. Jorge (Arrate), the leader of a parallel socialist party, told me in his headquarters: "In Chile, three groups traditionally share power—the right, the centrists and the left. The future structure of civil authority is threatened with subsequent break-up. That is why, during the almost six decades of the Socialist Party's existence, we have concluded an alliance with the Christian Democratic Party for the first time and why we are counting on exerting pressure from the left in the future government to expand the democratic process. We are also hoping for the union of all socialists into a single party."

After the long years of dictatorship, the country is literally reveling in political relaxation. Left-wing published works are coming out, including a Communist Party newspaper; they are telling anecdotes about Pinochet painlessly; they imitate his pseudo-folksy and squeaky way of talking on theater stages; and they even publish caricatures of him. However, the "autumn of the patriarch" is not the past but

the present. The generals gaze suspiciously at the "outburst of democracy" from the barracks' embrasures.

Pinochet and his circle under the false pretext that "only the army is the guarantee of stability" are trying to officially strengthen the mechanism for controlling civilian power and even making it their own hostage. Crudely speaking, the rope is being overstretched. The military clique has reconciled itself to the opposition's victory in the elections. In the building of the Latin American Institute for Theoretical Research, the members of the Bloc of 17's international affairs commission have said:

"The most critical period requiring the maximum concentration of efforts by all opposition parties and groups is the three-month period between the elections and the arrival of President (Evlyn) in the La Moneda Palace on 11 March of next year. He will be victorious without any doubt. According to sociological surveys, he will receive approximately 60 percent of the votes; and his rival—twofold less."

The indicator of definite changes in Chile has given me an opportunity to visit the country as chairman of the Soviet Committee for Solidarity with the Peoples of Latin America. Democratic organizations invited me to participate in a discussion of restructuring in the Soviet Union. Representatives of the leading political parties and even the public, who filled the vast hall, asked questions and emerged as "round table" participants. The range of questions was extremely broad: From the permissible limits of glasnost in the USSR to the situation of the Greek Catholic Church. Those who spoke emphasized the enormous role of the restructuring process in the USSR for the entire world, including Chile. The meeting's atmosphere itself was notable for friendliness and inquisitiveness.

There are weighty grounds for stating that the military regime is also interested in beginning a process of normalizing Soviet-Chilean relations, especially political ones. It wants to leave the political arena as if nothing special has occurred, as if there had not been any fascist putsch nor all the crimes that followed it. All the opposition parties without exception, whose representatives emphasized the Soviet Union's irreproachable position regarding the isolation of the military junta, justifiably do not want to give the illegal regime any chance at self-rehabilitation.

I think that changes for the better in relations between our countries are not far off. They are as close as the Cordilleras which abut the Chilean capital.

### History of USSR-China Relations Depicted

90U10016A Moscow LITERATURNAYA GAZETA in Russian No 40, 4 Oct 89 p 14

[Article by Sergey Goncharov, candidate of historical sciences: "From Alliance to Hostility to Friendship; 40 Years of Soviet-Chinese Relations"; first paragraph is LITERATURNAYA GAZETA introduction]

[Text] On 2 October 1949, the day after the establishment of the People's Republic of China was declared, the Soviet Union was the first to recognize it. Now that relations between Moscow and Beijing have been normalized following the Soviet-Chinese summit meeting, it is a good time to re-examine the lessons of the last 40 years—if only to avoid repeating the earlier mistakes that cost the people of the two countries so much.

The Treaty of Friendship, Alliance and Mutual Aid the USSR and the PRC signed on 14 February 1950 in Moscow served as a solid foundation for our bilateral ties throughout the 1950's. By the terms of this document, the Soviet Union and China formed a politico-military alliance which was actually aimed against the United States and its allies.

The treaty was of the greatest strategic importance to the Soviet Union because it guaranteed 7,500 kilometers of peaceful and friendly borders and a reliable ally in confrontations with the United States. The military-strategic value of the alliance with the PRC was already apparent by October 1950, when the "Chinese people's volunteers" entered the Korean War.

Besides this, throughout the 1950's China was the Soviet Union's main sales market for machines and technical equipment and one of its important sources of strategic raw materials (uranium, ore, and nonferrous metals) and of convertible currency (at the request of the Soviet side, China paid for part of the shipments in cash with the foreign currency overseas Chinese sent home). In general, trade and economic contacts between the two countries were mutually beneficial, and certainly did not represent a "gift" or "favor" from the USSR. As for Soviet "aid" in the strict sense of the term, it consisted mainly in the transfer of technical documents to the PRC on preferential terms (or for free).

The alliance also represented an extremely important guarantee of national security to China. Whole branches of heavy industry and defense industry were established with the help of the Soviet Union, and thousands of Chinese specialists underwent training in the USSR or were taught by Soviet instructors working in China.

The strictly centralized and authoritarian system of administration in the USSR seemed quite appealing and completely understandable to the Chinese leaders, who had lived for decades in an atmosphere of military discipline and armed struggle. The "Soviet model" became an example for the PRC to emulate when it established its own legal system and its own political, economic, ideological, and other institutions.

In general, the 1950 treaty was in the interest of the people of the two countries and was repeatedly described in the most positive terms by their leaders.

We must not, however, lose sight of the fact that the treaty was forced on China to some extent and was inconvenient in some respects. It was accompanied by a whole series of documents, including a secret "additional agreement" which effectively gave the USSR "special influence" in northeast (Manchuria) and northwest (Xinjiang) China—i.e., in the regions which tsarist Russia had once tried to include in its own "sphere of interests." In connection with this, Mao Zedong wrote that Stalin wanted to "acquire colonies" in Xinjiang and Manchuria.

Therefore, China was the "junior partner" in the alliance. This situation was reflected in the balance of power between the USSR and the PRC at the beginning of the 1950's and in their respective positions in international relations. The Chinese leaders, however, regarded their country's minor role as something necessary and temporary. The structure of Soviet-Chinese relations recorded in the 1950 documents was destined to undergo significant changes, and the only things that were uncertain were the forms the changes would take and the time when they would take place.

The changes began soon after Stalin's death, when all of the documents securing the USSR's "special rights" in Xinjiang and Manchuria were annulled, one after the other, on N.S. Khrushchev's initiative in 1954-1956.

The 20th CPSU Congress debunked the Stalin cult of personality and marked the beginning of a new phase in Soviet-Chinese relations.

After the 20th congress Mao Zedong repeatedly told Soviet representatives how the Chinese revolution had been hurt by Stalin's "displays of great-power chauvinism" and "diktat" and by his failure to understand the essence of the processes occurring in China.

At that time Mao Zedong and other Chinese leaders were angry that the CPSU had begun criticizing the Stalin cult without consulting the CCP in advance. In Mao's opinion, N.S. Khrushchev's actions had "put all of the trump cards in the hands of reactionary forces" and had sown chaos and confusion in communist ranks. The most vivid indications of this were the events in Poland (June 1956) and Hungary (October-November 1956).

The main thing Mao did not like about the criticism of the cult of personality was that it undermined the authoritarian style of administration he upheld.

China's position had a serious effect on the Soviet leadership's policies. It was one of the significant factors imposing restrictions on the criticism of Stalin and leading to the publication of Chinese rectifying articles in the Soviet press, whose authors said that despite his "serious errors," Stalin was a "great proletarian leader" and a "great Marxist." There is some indication that the Chinese leaders influenced the Soviet decision to send troops to Hungary to "suppress the counterrevolutionary rebellion."

When N.S. Khrushchev decided to work toward peaceful coexistence and disarmament with the United States and its allies, he should have prefaced this with efforts to bring about the closer coordination of the foreign and defense policies of the USSR's allies. By the middle of the 1950's the Soviet Union was opposed on the west by the NATO bloc and on the east by Japan, which was bound to the United States by a security agreement.

The problem of coordinating actions on the "western flank" of the socialist world was solved by the creation of the Warsaw Treaty Organization. On the "eastern flank" N.S. Khrushchev planned to achieve the same results with the qualitative reinforcement of military ties with China. The construction of a radio station in southern China, to secure communications with the Soviet Navy in the Pacific, and the basing of Soviet submarines in harbors on the Chinese coast were suggested to the Chinese leadership. In exchange for closer military cooperation and the coordination of policies on disarmament, Moscow guaranteed Beijing its "nuclear umbrella."

This was unacceptable to the Chinese leaders. They did not feel it would be possible to subordinate their policy toward the United States and other states with which they were in conflict to the interests of the USSR and they believed that their security could best be defended by their own "nuclear umbrella," and not by someone else's. During talks between the leaders of the two countries in July and August 1958, Mao Zedong resolutely rejected the Soviet proposals on the construction of the long-wave radio station and the basing of submarines.

It was more and more obvious that the foreign policy lines of the two powers were coming into conflict. The Chinese described the USSR's pointedly neutral position at the time of the Chinese-Indian border conflict (September 1959) and N.S. Khrushchev's trip to the United States soon afterward as a "betrayal of China's interests" and as "attempts to strike bargains behind the PRC's back."

The Soviet leaders responded by calling the Chinese Armed Forces' energetic action at the time of the "Taiwan strait crisis" (August- September 1958) "adventurism" and "an attempt to provoke a Soviet-American conflict." On 20 June 1959 the Soviet Union unilaterally broke the 15 October 1957 agreement on cooperation in new technology, which specifically called for the transfer of models of the atomic bomb and the technology for its production to the PRC.

The diverging interests and conflicting foreign policy lines undermined the bases of the Soviet-Chinese alliance. The situation was complicated by mounting ideological disagreements and arguments, which constituted the majority of Soviet-Chinese contacts in the late 1950's and early 1960's.

In the 1940's and 1950's the "national interests" of various socialist countries was not a term employed in analyses of situations or in the defense of viewpoints. The main priority was the "indestructible politico-ideological unity" of the socialist countries, and this presupposed identical

interests. In fact, however, this usually meant that the socialist countries had to subordinate their own national interests to the interests of the USSR.

Completely specific issues reflecting the national interests of the USSR and the PRC (war and peace, the right to lead the international communist movement, and the methods of socialist construction) lay at the basis of the Soviet-Chinese arguments of the early 1960's, which took on the nature of a religious war "for the true faith" (orthodoxy vs. heresy).

During these debates each side clearly displayed the belief that it had a "monopoly on the truth" and chose tactics allowing it to take maximum advantage of the other side's weaknesses. The CPSU, for example, concentrated on criticizing the content of CCP views, especially views on war and peace, which actually did become increasingly extremist and increasingly unacceptable to most of the communist parties as the debates continued. The CCP responded by accusing the CPSU of "great-power chauvinism," "paternalism," and "the authoritarian treatment of other parties." The culminating point of the arguments was the meeting of representatives of the two parties in Moscow in July 1963, which was a complete failure (it is interesting that both parties have recently adjusted their views precisely in the areas in which they once criticized each other most vehemently: The CPSU introduced significant changes into its ideas about the fundamentals of relations with other parties, and the CCP took a much more realistic approach to questions of war and peace, peaceful coexistence, etc.).

The ideological arguments stimulated mounting disagreements between the governments. In July 1960, for example, N.S. Khrushchev tried to exert pressure on China by recalling all Soviet specialists from that country; border incidents began the same year.

The militarization of the Soviet-Chinese conflict occurred under L.I. Brezhnev. There were several reasons for the buildup of Soviet troops along the border with the PRC. In the first place, in 1964 the Soviet-Chinese border talks ended in failure, and in June of the same year Mao Zedong made statements interpreted in the USSR as actual claims to 1.5 million square kilometers of Soviet territory. In the second place, every attempt was made to fuel anti-Sovietism in China before and during the "Cultural Revolution," and this suggested that Beijing had sinister plans for the USSR. In the third place, the Soviet military leadership was extremely dissatisfied with N.S. Khrushchev's conventional arms reductions. The Chinese side's unfriendly actions were an excellent excuse to "compensate" for the earlier reductions with a troop buildup on the Chinese border, and L.I. Brezhnev readily agreed to this move.

Militarization was also taking place on the other side of the border. This was partly a reaction to the USSR's actions and partly a result of the overall increase in the army's influence during the period of "Cultural Revolution."

At around the end of 1968 the Soviet and Chinese assessments of one another's domestic and foreign policies were virtually symmetrical. People in the Soviet Union were saying that "nationalists" had seized control of the CCP and were trying to stifle the resistance of "internationalists," or "healthy forces." These "healthy forces" would prevail over the "nationalists" eventually, and the restoration of the earlier "monolithic unity" of the USSR and PRC would then be possible. In turn, people in China were saying that the "bourgeois Brezhnev-Kosygin clique" had seized control of Moscow and was stifling the resistance of the "Soviet proletariat." Sooner or later, the "proletariat" would overthrow the "bourgeois renegade clique," and the "traditional Chinese-Soviet friendship" would then be restored.

People in China said that the foreign policy of the USSR was a "continuation of the aggressive policy of the Russian tsars"; people in the Soviet Union argued that the international activity of the PRC was a "continuation of the expansionist strategy of the Chinese emperors"; the two states accused one another of "serving imperialist interests" with their foreign policy.

The degradation of the ideological arguments and the militarization of the conflict gradually made military-strategic considerations the main factors in Soviet-Chinese relations.

There is no question that the turning point came when the Warsaw Pact troops entered Czechoslovakia and when Soviet leaders subsequently made statements about the right of fraternal countries to intervene when socialist gains in neighboring countries were being threatened. People in the West began calling this the "doctrine of limited sovereignty" or the "Brezhnev doctrine."

The Chinese leaders were frightened and enraged when the troops entered Czechoslovakia, and partly because they were afraid that the Soviet leadership might decide to resort to a similar way of "defending socialist gains" in the PRC.

In an attempt to prove that Beijing was "not intimidated by threats and pressure," the Chinese leadership ordered more intensive and resolute armed patrols of the border with the USSR. The Soviet side took similar measures. In March 1969 there were bloody conflicts on Damanskiy Island (on the Ussuri River).

The tension on the border and the armed clashes continued throughout summer 1969, culminating in a confrontation in Zhalanashkol (a town in Semipalatinsk Oblast) in August. It was at this time that reports were "leaked" to the Western press to suggest that the USSR was supposedly planning a "preventive nuclear strike" against nuclear installations in China. The intensity of the situation was alleviated to some extent only after A.N. Kosygin met Chinese Premier Zhou Enlai at Beijing Airport on his way home from Ho Chi Minh's funeral on 11 September 1969. The sides agreed to begin negotiating a settlement of the border dispute.

The border talks, which went on intermittently until 1978, considerably reduced the severity of the military confrontations on the border between the two countries and were used by the Soviet Union as a channel for a whole series of proposals regarding the conclusion of a non-aggression pact, a document on the principles of interrelations, an agreement on broader cooperation in various fields, etc. None of these proposals produced any results. Soviet-Chinese relations at that time consisted mainly of strategic confrontation, which was acquiring global dimensions.

The Soviet Union decided to secure its military superiority to China at all times and to strengthen its position in Asia by promoting a "collective security" system, acquiring new allies, and supplanting the Chinese influence in "Third World" states. One of the USSR's goals in Soviet-American relations in the 1970's was the prevention of the excessive convergence of Beijing and Washington.

China responded by vigorously pursuing contacts with the United States, Western Europe, and Japan, by actively striving to undermine detente in Europe, and by making statements against USSR policy on virtually any issue and in virtually any part of the world.

The late 1970's and early 1980's—the period of the derailment of detente—were marked by extreme tension when the Chinese leaders began calling for the creation of the "broadest possible united front" for the "containment of Soviet expansionism."

At that time the Soviet Union spent colossal amounts to fortify the border with China. The decision to begin the construction of the Baykal-Amur Railroad, announced in 1974 by L.I. Brezhnev, was also connected with the need for stronger rear support for the Far Eastern group of Soviet troops. Sizable sums were also spent to weaken China's influence in international affairs.

Once again, China took "symmetrical" action: the "third line of defense" in the internal mountainous regions of the country, the stationing of troops along the entire border with the USSR, and the "struggle against Soviet hegemony" in the international arena.

The colossal expenses both states incurred in order to complicate one another's life to the maximum inhibited the socioeconomic development of the USSR and the PRC for many years.

At the beginning of the 1980's the USSR and China showed the world another paradox: When relations between them reached the maximum point of friction after the Soviet troops entered Afghanistan, the conditions needed for detente were gradually established.

China did not want to make excessive concessions to the United States (primarily in connection with the "Taiwan problem") for the sake of the joint "opposition of Soviet hegemony." Furthermore, the Chinese decided that the Soviet Union had "overextended itself" and could not pose a real threat to the PRC's security. The main thing, however, was the program of sweeping economic reforms in China, which could not be carried out without peace and

stability in international relations, the concentration of all forces and resources on the resolution of domestic problems, and the safeguarding of security primarily by political means.

The Soviet leadership agreed to the improvement of relations with the PRC, mainly for the purpose of strengthening the USSR's position in the confrontations with the United States that had intensified dramatically after Reagan took office.

The differences in the basic intentions of the sides were the reason for the pronounced differences in the positions of the Soviet Union and China at the bilateral political consultations which began in October 1982. China asserted that the normalization of relations was being impeded by "three big obstacles" (the Soviet troops along the border and in Mongolia, the Soviet troops in Afghanistan, and the Soviet Union's support of Vietnam's policy in Kampuchea). The Soviet Union rejected the Chinese demands for the "elimination of obstacles" in the belief that they were intended to weaken Soviet strategic positions in Asia.

The talks on these "obstacles" were effectively at a standstill for a long time, and the relations between the states were improved largely as a result of the Chinese side's more flexible position and its agreement to gradually develop contacts in economics, science, culture, and education.

Mutual suspicion was fueled by serious differences in the domestic policies of the two countries in addition to everything else. People in China regarded the Soviet Union as a stagnant state incapable of making any serious changes, and they believed that one of the chief aims of their reforms was a radical break with the obsolete and ineffective "Soviet model." In turn, people in the USSR regarded the Chinese reforms as a dangerous "rightwing deviation," something just short of "a slide toward capitalism."

The qualitative improvement of relations became possible only after the beginning of the perestroika in the USSR, which brought the domestic and foreign policies of our countries closer together. The withdrawal of Soviet troops from Afghanistan, the decision to reduce the military contingents along the Soviet-Chinese border and in the MPR, and the progress in settling the "Kampuchean problem" made the problem of the "three obstacles" almost irrelevant.

By 1989 the prevailing opinion in China was that Soviet foreign policy was "undergoing strategic changes" and had "ceased to be hegemonic."

The changes in the policies of the two countries and in their treatment of one another created the necessary conditions for the summit meeting in Beijing in the middle of May 1989. A joint communique was issued on the results of the meeting, and it still constitutes the political basis of Soviet-Chinese relations.

It appears that Soviet-Chinese relations should not take the form of a politico-military alliance during this new phase. These relations must be based on a precisely acknowledged balance of national interests. The processes of reform in China and of perestroika in the Soviet Union became important factors bringing the two states closer together, but even if serious differences in the domestic policy and ideology of the two countries become apparent once again at some time in the future, this must not lead to new mutual accusations of "dogmatic" behavior, "revisionism," and other sins.

In contrast to the past, when the two countries were striving to impede one another's development and growth as much as possible, now they must make maximum use of interaction with their partners for the sake of their own development. The security of borders must be safeguarded by an interest in mutually beneficial division of labor, and not by military contingents.

#### **Far East Conference Forum for USSR-Japan Ties**

90U10041A Moscow SOVETSKAYA ROSSIYA in Russian 12 Oct 89 Second Edition p 3

[Article by A. Kopnov (Sapporo): "Surmounting Alienation"]

[Text] The new thinking the Soviet Union has proposed to the international community and the Soviet foreign policy initiatives are creating favorable conditions for the consolidation of new positive tendencies in relations between the USSR and Japan. This is mentioned in a joint communique approved by the participants in the fourth Far East conference of public spokesmen from the two countries in Sapporo, according to a TASS correspondent's special report for SOVETSKAYA ROSSIYA.

Around 500 representatives of political and business groups, labor, women's, and youth organizations, and the scientific and cultural communities in the two states discussed ways of reinforcing their friendship and of promoting mutually beneficial all-round cooperation by the Soviet Far East and Siberia with the northernmost Japanese island of Hokkaido.

During their 4 days at the forum entitled "For Friendship, Good-Neighbor Relations, and Cooperation in the Far East," the sides agreed to encourage the new favorable processes in bilateral relations. To this end, the final document says, the participants applaud the decision on the official visit by General Secretary of the CPSU Central Committee and Chairman of the USSR Supreme Soviet M.S. Gorbachev to Japan in 1991.

"I believe that our work was completely successful," the head of the Japanese delegation, Chairman Shigeru Suzuki of the Hokkaido Associated Chambers of Commerce and Industry, said at a press conference. "We had the most profound exchange of views on all of the existing problems in our relations and thereby took a step toward the more thorough understanding and resolution of these problems."

Yoshiaki Yumoto, chairman of the Japanese organizing committee, said that the emphasis on concrete results was a distinctive feature of the fourth Far East conference.

In contrast to all earlier conferences, this time the participants are leaving with an impressive package of agreements. Negotiated and signed trade and economic contracts, for example, should amount to 7.5 million dollars. It is the common opinion that many of the Soviet delegation's proposals are a tangible sign of perestroika in the system of foreign economic relations in the USSR and of the increased autonomy of local government agencies. Of course, many difficulties still exist in the relations between the two countries. This is particularly true of the lack of balance in trade between Hokkaido and the Far Eastern regions of the USSR and the Coordinating Committee for Multilateral Export Control (CoCom) restrictions in effect in Japan. In addition, the infrastructure in the eastern regions of the Soviet Union has not been developed sufficiently.

This conference proved, however, that the severity of even the most serious problems can be alleviated in the presence of a mutual desire for dialogue. The response of the head of the Japanese delegation to a question about the so-called "northern territories" at a press conference can serve as an example of this. We must work in a peaceful atmosphere, Shigeru Suzuki said, and strive for the expansion of friendly contacts. This will aid in solving this intergovernmental problem, which will take time.

The sides agreed to hold the next Far East conference, the fifth, in one of the cities of the Soviet Far East in 1991.

#### Commentary on Gorbachev's Visit to Japan

90UI0041B Moscow *IZVESTIYA* in Russian 5 Oct 89  
Morning Edition p 5

[Article by S. Agafonov (Tokyo): "The Date Has Been Set, But Now...."]

[Text] It was exactly a week ago, when the foreign ministers of the USSR and Japan met in New York on Wednesday, that an announcement stunned the local news media and political and business communities—an official visit by the chairman of the USSR Supreme Soviet to Japan has been scheduled for 1991.

I used the word "stunned" without any hesitation because Japan has never been part of the geography, regardless of its breadth and diversity, of trips by the top-level leaders of our country.

How have people in Japan reacted to this news and how do they interpret it? The answers to these questions seem to be of interest because the initial reaction essentially laid the foundation for the future dialogue, even though it is scheduled for the still distant year of 1991. From the formal standpoint, everything seems fine—the leaders of the Japanese political community, including the prime minister, announced that they were pleased that a date had been set and expressed a sincere desire for broader and stronger ties with Moscow. The business community and

the press had an equally favorable reaction to the news of the upcoming visit. Commentaries have been full of pleasant remarks about perestroika and the new thinking and are already referring to the future Tokyo talks as a historic event and a turning point in the relations between the two countries.

We could happily cite many flattering remarks, because there is no shortage of them, but it is obviously more useful to limit the complimentary portion of this report and move on to another, much more pragmatic side of the matter—the Japanese expectations for the coming visit. The most basic of these is the idea that the Soviet leader's arrival in Japan should secure a breakthrough in the "territorial question" and thereby pave the way for the conclusion of a peace treaty between the countries, which still does not exist. The intensity of this association differs in different groups, but it is nevertheless present in the majority of forecasts and is regarded as something like the "ultimate objective" of the future talks. In this context, there have been numerous appeals to the Soviet side for a display of "political will" and for the resolution of the ill-starred problem in Japan's favor, entailing the surrender of the four Kuril islands. A detailed analysis of these appeals would probably serve no purpose, but it is logical to assume that Moscow also has the right to issue the same kind of appeals to Tokyo and advise the Japanese to demonstrate the kind of "political will" that would remove the "territorial question" from the agenda completely.

In this context, it is interesting that many responses to the news of the future visit demonstrate an essentially clear belief that Soviet-Japanese relations are not confined to a single problem, that they have exceptional potential, and that they are something like virgin soil which no one has ever even begun to cultivate. This approach can only be called healthy and it can only be applauded, but only if it is not used as a prelude to talk about the same old "single problem," which is being portrayed by political scientists here as a "universal brake" impeding any and all movement in bilateral contacts. Attempts at this kind of interpretation have been made, regrettably, and there are also descriptions, and often quite eloquent ones, of the possibilities for Japanese economic assistance, investments, regional cooperation, and other mutually beneficial prospects which are literally within our grasp but are nevertheless behind the obstacle of the territorial dispute.

All of this, incidentally, applies to all of the remarks that were made publicly at press conferences, in newspapers, and on the air. Some of the judgments and opinions expressed "behind the scenes," however, add new nuances to the general picture. For example, the announcement of the date of the visit came as a surprise to the Japanese side and caused some friction between political groups and the Japanese Ministry of Foreign Affairs. For the ruling Liberal Democratic Party (LDP), the future arrival of a Soviet leader in Japan ceased to be a hypothesis and became a reality and has already, even 2 years before the visit, become a trump card in the game of domestic politics.

My Japanese colleagues, for example, are certain that the LDP is much more interested than the Ministry of Foreign Affairs in a summit meeting and will display maximum flexibility to secure the success of the Tokyo talks. On the other hand, Moscow's announcement of a trip scheduled for 1991 is viewed in Tokyo as clear evidence of the stability of the situation in the Soviet Union and as a 2-year interval providing opportunities for adjustments in ideas about relations with the USSR. Some have even expressed the opinion that Gorbachev has made another brilliant move by putting a bridle on Tokyo and binding the Japanese with the expectation of the coming meeting, which will require an exceptionally favorable climate in bilateral contacts, to be maintained by word and deed throughout the 2 years. As for the "ultimate objective," many influential members of the Japanese political hierarchy are inclined to acknowledge "behind closed doors" that it is unlikely to be reduced to a Japanese denominator either today or in 2 years and that other means of arranging for full-scale dialogue with the Soviets must therefore be considered.

It is apparently still too early to make any general statements about the Japanese reaction to the scheduled visit by the Soviet leader to Tokyo. Serious discussions have been launched at various levels here. It is clear, however, that people in the Japanese capital will wait impatiently for the visit and will associate many hopes with it, especially in view of the fact that Tokyo is far behind its colleagues in the "Western club" in its movement in the "Soviet direction." The desire to reach this goal is not enough in itself, however, and it will take concrete effort, visible steps, and perceptible moves—and not only on the Japanese side, but also on ours.

#### Japanese-Soviet Trade Association Chief on Perestroika, Business Prospects

90170057 Moscow ZA RUBEZHOM in Russian No 41, 6-12 Oct 89 p 9

[Interview with Tetsuo Sato, chairman of Japanese-Soviet Trade Association, by I. Semenikhin]

[Text] "Unless the local soviets are granted independence perestroika will spin its wheels," thinks Tetsuo Sato, chairman of the Japanese-Soviet Trade Association.

I have known the head of the Japanese-Soviet Trade Association Tetsuo Sato for more than 6 years. This highly erudite economist has always impressed me with his original thinking and his clear formulations and deductions. For many years during the period of stagnation he worked in Moscow and when he returned to Tokyo he became chairman of the Japanese-Soviet Trade Association. He is quite familiar with the complicated mechanism of our former command-bureaucratic system. The time of glasnost and perestroika has come. While welcoming the changes T. Sato, however, warns: "You know the bureaucracy will not give up so easily."

Certain judgments of the chairman of the Japanese-Soviet Trade Association might seem questionable but they all

seem to me to be imbued with a sincere desire to help us figure out the problems that have accumulated. It would seem that this interview will not only interest economists and all other readers but will give food for thought to leaders of local soviets who have yet to acquire independence and initiative.

[Semenikhin] Sato-San, for 15 years you have been dealing with questions of Japanese-Soviet economic cooperation. How do you assess the course of perestroika?

[Tetsuo] Indeed, I am very attentively following the events in your country and the discussions that are developing at the session of the USSR Supreme Soviet. By and large the debates now taking place in the Soviet Union are a quite natural and necessary phenomenon. Without them it would be impossible to rouse the people and motivate them to search for ways out of the stagnation. But while observing glasnost I paid attention to the fact that you have a very large number of empty discussions, even at sessions of the USSR Supreme Soviet. I shall say frankly that I as a businessman frequently have to do business with deputies of the Japanese parliament and hear their speeches. I must note that with all the pluses and minuses, the pros and cons of a session of the Japanese parliament, the discussions there take place on a high professional level. They produce a large effect from the standpoint of implementation of the state policy. It seems to me that your parliamentarians have yet to acquire the necessary skills.

In a short period of time, literally in a couple of years General Secretary of the CPSU Central Committee M. S. Gorbachev has managed to untie knots that have long existed in international policy. Today one can speak of a new detente. And it is quite natural if at the present time after the achievements attributed to the current detente more mistrust and tension arise between the East and West and the world is hurtled into the abyss of another cold war.

Look at what happened recently in China. The economic reforms in the PRC produced a certain amount of success. A considerable amount of assistance was rendered to this country by Japan, the United States, France, England, and Italy in the area of creating joint enterprises, expanding economic cooperation, and granting large amounts of credit. But after the tragic events in Beijing on Tienanmen Square the Western countries began to raise their voices. To what extent can the Chinese government be trusted? The influx of foreign tourists decreased by 90 percent and the immense hotels that were constructed in the PRC for foreign guests are now standing empty. I am convinced that things will not reach this point in the USSR.

I know that there are still many shortcomings and problems in the lives of the Soviet people. But it would be unreasonable to look at perestroika only from the standpoint of the deficit and the shortages of certain goods. It has not produced any appreciably economic results so far, but its main results during these years are the change in the awareness of the masses and their turn in the direction of new creative thinking.

[Semenikhin] Has the nature of contacts and ties with the Soviets changed during the years of perestroika in the area of economic cooperation?

[Tetsuo] This is a fairly difficult question. On the one hand, with the beginning of perestroika we all felt that the Soviet people have become more open and communicative. In this sense it has become easier to deal with them. On the other hand, when it comes to carrying out certain concrete plans for cooperation, the remnants of bureaucratism let themselves be known. It would seem that there are several reasons for this. For example, a decree of the USSR Council of Ministers, No 1403, came out on 2 December of last year. In keeping with it the cooperatives and local authorities were permitted to enter into and develop direct economic ties with foreign partners. It would seem that this would be an incentive for extensive local initiative. But already on 7 March of this year another decree of the USSR Council of Ministers appeared, No 203, which introduces license deliveries into the system. And this means that the local authorities, state enterprises, and cooperatives must obtain licenses in order to trade with foreign partners. Upon deeper study of this decree I got the impression that it was prepared by experienced bureaucrats, legal experts, and planners who, however, had little knowledge of the specific nature of local conditions in the USSR. I shall explain. For example, Irkutsk Oblast conventionally exports 100,000 cubic meters of timber under licenses. With the money received from the sale they purchase technology, equipment, and consumer goods. And here as a result of the mobilization of internal reserves the oblast was able to procure 110,000 tons of timber. It would seem that it would be reasonable to grant a license for these additional 10,000 cubic meters and have done with it. But no. On the basis of decree No 203, it is now necessary to get from Moscow a license for all 110,000 cubic meters of timber. Thus the introduction of licenses has again restricted the freedom of the local soviets.

Another problem. Speaking in 1986 in Vladivostok M.S. Gorbachev emphasized that the Far East is one of the least developed regions of the USSR and its backwardness is an impediment to all of the country's development. This is a kind of raw-material appendage to the Soviet economy which delivers gold and diamonds, petroleum and gas, timber and coal. And what do Siberia and the Far East receive in exchange? From the standpoint of socioeconomic benefits, practically nothing. I think this is an extremely unreasonable policy. Income from the utilization of Far Eastern resources should be used exclusively for the development of the local infrastructure, improvement of the conditions for the life and work of the people, and the creation of modern productions and enterprises in the eastern part of the country. But you think that the miserly increment to wages in Siberia and the Far East should attract labor there. Yes, some people go there for the money, but then they return to the European part of the USSR. Again because in Siberia and the Far East the conditions are not such that people would want to live there permanently. Therefore I think that you should grant

more independence and rights to the local soviets, especially in Siberia and the Far East, for the development of foreign economic cooperation, and introduce taxes on the money that is received in foreign currency, which should then go for improving the living conditions for the workers in each specific region. For example, Sakhalin and Primorye produce 40 percent of the fish caught in the USSR, a large part of which go for export. So why are the living conditions for the Primorye residents considerably worse than those of residents of the Baltic area?

I have traveled through Siberia and the Far East six times this year. And I am flying out again—this time to Krasnoyarsk. This time 25 Japanese economists have come with me. We have brought concrete proposals to arrange cooperation in the area of processing final products, textile production, and nonferrous metallurgy. We are being told that the local soviets have no hard currency. But we Japanese entrepreneurs can get credit from the Export-Import of Japan; all we need is a letter from the USSR Foreign Economics Bank with a guarantee that the "local self-management organs will not go bankrupt." But the USSR Foreign Economics Bank is still not supporting these local plans and does not want to act as guarantor. This is a very strange position. I am sure that perestroika will spin its wheels unless the local soviets are granted independence.

[Semenikhin] Sato-San, tell me, if you were suddenly to become Gorbachev's economic adviser what would you advise the Soviet leader now?

[Tetsuo] It is difficult for me to speak for your country but on the basis of Japan's postwar experience I would suggest choosing one of the regions of Siberia and the Far East and creating a standard for economic development there. For example, it would be possible to think about creating a Siberian economic zone for the development of rare metals. At the present time in the USSR there is a critical need for modernization of the textile, food, and construction industry and also the creation of a branch which is still in the embryonic stage in your country—the production of consumer goods. When planning the model economic region the primary efforts should be directed precisely to these branches.

Naturally, this project will require a considerable amount of money, possibly billions of dollars. You import many daily necessities now. But I think you should have confidence that in a year or two exactly the same goods could be produced in the USSR. But how can you do this without creating a modern infrastructure and new technology? Without the investment of significant amounts of money? Many of your economists are now placing their hopes in joint enterprises. They say that they will bring prosperity. I do not agree with the idea of joint enterprises. Why?

I am a capitalist. I purchase a cubic meter of unprocessed timber from you for, say, 1 dollar. After the proper processing I sell it for 3 dollars, thus receiving a profit. I have 2 dollars of profit in my pocket and you have one. Now we have created a joint enterprise. I have provided the technology and you, the work force and raw material.

Now we shall sell our product together, again for 3 dollars, but you will receive half and I half. Would it not be better to take out credit, purchase the equipment, arrange your own production, and sell a high-quality product for 3 or possibly 4 dollars? I do not understand why you think that if you take out credit and pay interest this operation is somehow conducted at a loss. After all, it is possible to make up for interest through profit.

Three years ago I offered representatives of the Administration for Service to the Diplomatic Corps credit for the construction of a residential building for foreigners in Moscow. If we had reached an agreement at that time the building would have been constructed in a year and a half and the Administration for Service to the Diplomatic Corps would have been receiving hard currency from its operation. But the building has not been constructed to this day. All this is incomprehensible to us Japanese. I think you should figure out the system of monetary circulation better.

But returning to the question of the "economic adviser" for Gorbachev, I repeat again that you should select one region and transform it into a model of economic development for all the others. But it seems to me that you should not take the path of creating free economic zones as they did in China. Why? One must not forget that at the time of the creation of these zones the PRC received the necessary capital. It came mainly from Hongkong where affluent and highly skilled ethnic Chinese live. And they provided the necessary money and technology for the free economic zones. As I understand it the USSR does not have a Hong Kong... Therefore a problem immediately arises: Who will finance these zones? It seems to me that you should take your own path to restructuring the economy through the allotment of significant funds for modernization and development of the infrastructures in the local areas, and the main condition for success should be expansion of the possibilities for the soviets to develop industry and distribute profit.

#### Japanese-Soviet Trade Association Chairman on Far East Development

90U10013A Moscow LITERATURNAYA GAZETA in Russian No 40, 4 Oct 89 p 9

[Interview with Tetsuo Sato, chairman of the Japanese-Soviet Trade Association, by V. Dunayev, APN and LITERATURNAYA GAZETA correspondent, in Tokyo; first two paragraphs are LITERATURNAYA GAZETA introduction]

[Text] Yevdokiya Gayer presented a brilliant speech at the Congress of People's Deputies of the USSR. This outstanding woman's personality and her description of the ecological disaster in parts of the Soviet Far East naturally aroused interest. People in Japan also took note of her speech, particularly the business groups with experience in economic contacts with the USSR. Predictably, the main point of interest in her speech was her statement that the Far East is turning into an "economic appendage" of Japan. For decades our mismanagement precluded the

development of healthy international economic contacts. As a result, our partners naturally ignored the ecological situation in certain parts of our country.

The interview with Chairman Tetsuo Sato of the Japanese-Soviet Trade Association (which has existed since 1967) was the result of a mutual desire to learn more about the current situation.

[Sato] Frankly, we feel that this kind of candid discussion is long overdue. I must remind you that everything that has been achieved within the framework of bilateral economic ties (because of the peculiar political relationship between our countries, which still have no peace treaty) is certainly not the result of government efforts. As a rule, your partners in Japan were and are private firms, and most of these have been mid-sized and small enterprises, the kind that are more likely than large companies to take risks because they always face fierce competition. There are 69 such companies in our association.

The Soviet side, which is just beginning to establish a system of market relations, cannot imagine the problems companies, cooperatives, or just groups of people must face when their plans are ruined by their partners. The timber we receive through Tsentrrosoyuz or Dalintorg channels, for instance, is of extremely poor quality and does not meet Japanese standards. It cannot be used unconditionally in our routine technological cycle. All of our complaints have fallen on deaf ears: Forests are still being felled indiscriminately, with no regard for quality and sorting standards, and the land is littered with valuable waste materials. Who suffers? The Soviet economy does, the regional environment does, and we do, because we have to finish the work we have already paid someone else to do.

Within the framework of perestroika, the first steps are being taken to change the structure of foreign trade. There is no question that it is unprofitable for you to ship rough logs—i.e., the product of primary processing—to Japan. The construction of a specialized high-technology enterprise on the site would also secure a closed production cycle—i.e., waste-free and ecologically clean production. The same is true of coal, oil, gas, and other natural resources. This cycle does not exist today, but there is a vicious cycle: You need foreign currency, but you cannot get it without selling raw materials. One solution is the integration of the USSR into the world economy. No country can exist today without healthy trade and economic exchange.

Around 40 years ago Japan began literally from zero. After deciding that we could not get along without the best world technological achievements, we resolved to find a way to buy the latest American and European licenses. To this end, we had to strive for high product quality and low overhead costs in export branches—i.e., the most competitive branches. I think that our Soviet partner should also begin by concentrating on traditional export items, but with a dramatic improvement in their quality, so that they will meet the standards of the importer—or, in this case, of Japan. We buy timber from the USSR and also from

Canada, the United States, and Australia, and we can always rely on them: They deliver timber of the specified quality on schedule.

Our two countries are not making use of all of the potential of Siberia and the Far East for our mutual benefit. Other items could be added to the traditional shipments of timber, coal, and maritime products. Through concerted effort, we could even solve the fertilizer problem. There are wonderful natural fertilizers on Kamchatka and Sakhalin, including various types of humus. There is volcanic ash on Kamchatka. When it is used in cement production, the cement is 30 percent lighter and just as strong. The Japanese are naturally interested in using it on a mutually advantageous basis. We import marble and granite from far-off Italy, and not from nearby Siberia and the Far East. The reason is that the Italians cut the stone to the size we want, but you blast it apart and ruin it! As a result, the Italians who treat their natural resources so carefully are earning big money while you are damaging your ecology.

You are now perfecting the machinery of more efficient economic management. I think that the reinforcement of truly autonomous and financially secure organs of local government is the best way of helping Maritime Kray, the Far East, and Siberia organize the intensive processing of valuable raw materials and protect the environment in these regions as quickly as possible.

In conclusion, I would like to tell you our "tales of woe." For many years, I repeat, small and mid-sized enterprises took on the risk of establishing bilateral economic contacts with your organizations. Many aspects of international relations are dictated by ethics, but we are frequently reminded that we are "second-class" partners: Even the substandard rough logs we receive are part of the timber rejected during Eksportles inspections. But after all, in our dealings with Dalintorg and Tsentrosoyuz, we even paid 5 percent more for an inferior product for a long time. The same is true of delivery dates: In contrast to the larger Eksportles, Dalintorg does not have its own storage and shipping facilities in ports, and it never keeps up with delivery schedules.

In this area as well, our interests are the same as the Far Eastern interests which were defended so magnificently at the Congress of People's Deputies of the USSR. When separate regions are given more autonomy and when the material-legal base of local government is reinforced, we next-door neighbors will have less difficulty coming to an agreement and defending our own interests without hurting those of our partners.

We cannot smooth out the "rough spots" in cooperation without an economic "plane."

#### Commentary on Status of Cambodia

##### **Pullout Seen As Aspect of "New Thinking"**

18070365 Moscow SOTSIALISTICHESKAYA  
INDUSTRIYA in Russian 27 Sep 89 p 3

[Article by international reviewer M. Nepesov: "A Decisive Step"]

[Text] On 26 September the last Vietnamese soldier—there were only 26,000 left by this time in Cambodia—left this country to the tune of warm regards, expressed to him in parting by the residents of Phnom Penh. More than a hundred foreign representatives, including from the Philippines, Thailand, Great Britain, the FRG and the Soviet Union, as well as 350 correspondents from major world press agencies and television companies watched as Cambodians parted as brothers with Vietnamese soldier-internationalists. Their role in safeguarding the peaceful labor of the Cambodian people was doubtlessly extremely useful and constructive. But it should not be forgotten that hostile forces had been opposed in the past and are presently opposed chiefly by the armed forces of the state of Cambodia, numbering 50,000 soldiers and officers, 100,000 members of the people's militia and numerous local defense forces.

A qualitatively new situation has now evolved in Cambodia, one which may lead to settlement of one of the most complex and lengthy regional conflicts, given the presence of goodwill. A recent peace initiative by Thai Prime Minister Chatchai Chunhawan, the main goal of which is to avert attempts by Pol Pot and his allies to unleash new bloodshed in the struggle for power in Cambodia, appears extremely productive in this light. Cambodian Council of Ministers chairman Khun Sen [transliteration], who visited Bangkok on 19 September at the personal invitation of the Thai prime minister, expressed the readiness to continue efforts to attain a political settlement to the conflict, and his consent for a new meeting with Prince Norodom Sihanouk "anytime, anywhere."

The Cambodian government has the country's entire territory under its confident control. At the same time it feels that constructive negotiations with different Cambodian groupings on the matter of attaining national accord and establishing a firm peace on Khmer soil are possible. This is why the announcement of Pol Pot's followers of their intention to resume military operations, march to Phnom Penh and so on appear out of place and provocative.

However, the vain attempts of the enemies of complete settlement of this regional conflict are being decisively rejected both in the country and beyond its borders. At a recent press conference after his return from Bangkok, the head of the Cambodian government laughed: "How could they capture Phnom Penh if they are not even in a position to control the regions bordering on Thailand?" He also emphasized that Thailand does not want yet another civil war to start in Cambodia and for Pol Pot and his followers to regain power there.

The completion of the withdrawal of Vietnamese troops from Cambodia is doubtlessly yet another manifestation of the politics of the new way of thinking. One might also recall in this connection the withdrawal of Soviet troops from Afghanistan and the completion of the international mission of Cuban soldiers in Angola and Ethiopia. On this backdrop, the presence of foreign troops on the territory of a number of countries of Western Europe, Asia and Latin

America and presence of foreign military bases on the soil of distant sovereign states appear as a clear anachronism.

### Constructive Approaches Evident

18070365 Moscow KRASNAYA ZVEZDA in Russian 26 Sep 89 p 3

[Article by A. Golts: "What Awaits Cambodia? A Reviewer's Opinion"]

[Text] Today, on the day that withdrawal of Vietnamese volunteer troops from Cambodian territory is coming to an end, many are asking this question. The situation that has evolved in the country is in fact rather complex. Those that are leaving, you see, are the ones who saved the Khmer people from extermination by the followers of Pol Pot a decade ago. Those that are leaving are the ones who helped deflect the blows of the bandits all of these years. In the meantime an international conference conducted in Paris never did develop firm guarantees that military operations would not burst out with new force, or that a genocidal regime would not seize power. Incidentally, Pol Pot's followers did everything they could to break off the work of the Paris forum.

And this is understandable. The followers of Pol Pot rest their hopes on reestablishing themselves in Phnom Penh with the departure of Vietnamese troops. According to press agencies their armed formations are attempting to advance into the Cambodian interior from the Thai border.

And so, does a new Pol Pot invasion await Cambodia? Ultimately, I think not. First of all because the opposition

is faced by an impressive military force—the People's Army of Cambodia. It is equipped with modern weapons, and it possesses considerable combat experience. It is prepared to repel the enemy. It is also hard to believe that the followers of Pol Pot have any solid social base in the country. All they have in their possession is terror.

Concurrently, as observers note almost unanimously, the popularity of the present leaders of the state of Cambodia is growing continuously. This is associated chiefly with the extensive reforms undertaken in recent times. The land henceforth belongs to the peasants who work it, while the houses in the cities belong to those who live in them.

Finally, it is extremely indicative that the possibility that the genocide may repeat itself also troubles circles in ASEAN countries that saw the Vietnamese military presence as the source of all woes in all of the 10 years—circles which helped the armed opposition. Now the approach is changing. Thus, recently Thailand offered a proposal to both the opposition and the Cambodian government to sign a cease-fire agreement. And while Phnom Penh supported this proposal, the leaders of the opposition groupings "met it coldly," according to the Associated Press. But we will not forget that these very groupings are presently operating out of Thai territory, and that weapons are being delivered to the opposition by way of Thailand. Such that Bangkok possesses extremely serious levers of influence upon the opposition.

Moreover the international conference on Cambodia has not yet spoken its last word. It has only interrupted its proceedings for consultations, and it has not terminated them. All of this persuades us that a night of terror will not once again befall Cambodia.

**Opposition Party in Pakistan Gathers Strength**

90U10052 Moscow SOVETSKAYA ROSSIYA in  
Russian, 14 Oct 89 Second Edition p 5

[Article by N. Semenenko, Islamabad: "The Opposition Throws Down the Gauntlet"]

[Text] Despite the outward calm, Pakistan lived throughout September in uneasy expectation of the opening of the regular session of the National Assembly (lower chamber of parliament). All this time the arrow on the political barometer crept steadily to the "storm" mark. It seemed that in just one more second there would be a clap of thunder, the TASS correspondent in Pakistan writes to SOVETSKAYA ROSSIYA.

Prime Minister Benazir Bhutto and a number of her close members of the cabinet of ministers were compelled to cancel trips abroad for 2 months. At the recently held summit conference of the Nonaligned Movement in Belgrade, the Pakistan delegation was headed by senior governmental minister Nusrat Bhutto. But she flew to New York to participate in the work of the 44th Session of the UN General Assembly.

The reason for such serious concern in the upper echelons of authority in Pakistan is the activity of the opposition which initiated an unprecedented campaign against B. Bhutto and the government of the Pakistan People's Party (PPP) that she heads and which openly announced its intention to secure their resignation by introducing a vote of no confidence in the National Assembly. The organizer and inspirer of this campaign was a bloc of opposition political parties—the Islamic Democratic Alliance (IDA). It united primarily right wing religious forces under its banner that are for a continuation of the domestic and foreign policy course of the former military dictator General Zia-ul-Haq, who ruled the country for more than 11 years.

Islamic theologians have also actively joined the anti-Bhutto and anti-government campaign. They have already introduced four "fetvy" (religious verdicts) according to which a woman cannot be the head of a Muslim state.

The current confrontation was initiated by the well-known events of 17 August in Islamabad. On the first anniversary since the death of Zia-ul-Haq, who died a year ago in an air crash under obscure circumstances, IDA organized a grandiose meeting at the grave of the former military dictator, spending more than 20 million rupees on this measure. Mass demonstrations were also conducted in Lahore, Peshawar, and other large cities of the country. That is the way the opposition decided to demonstrate its strength. In turn, the PPP organized a series of meetings and demonstrations throughout the country, thereby asserting its popularity among the various strata of the population. This kind of rivalry of the political forces in Pakistan received the name abroad "the meeting war." Both sides spent many millions on its organization, sums that are so necessary for overcoming the socio-economic crisis in the country.

The government of B. Bhutto tried to weaken the ability of IDA to influence the attitudes of the broad strata of the population by implementing the so-called "people's program," which is still the single largest project that has been announced by the federal authorities. It is assessed at 2 billion rupees and encompasses four very important spheres: health, education, provision of the population with drinking water, and the development of communications. The appropriated moneys are to be distributed in the provinces by local representatives of the PPP jointly with administrative staffs. However, the governments of Punjab and Baluchistan declared this program to be spending by the ruling party of state funds for political purposes and forbade their own officials from contributing to its implementation.

Crime is growing in the country at a high rate. Local newspapers are literally teeming with reports about how well-armed bands are conducting raids on banks, jewelry stores, and gas stations, and how they are assaulting villages and seizing people for whom relatives are forced to pay large sums as ransom.

The presence on the territory of the country of a large number of Afghan refugees from the headquarters of the unappeasable opposition has led to a sharp increase in the number of weapons the population has and to an enormous flow of narcotics. At the present time, Pakistan has moved to first place in the world in the supply of heroin to the underground markets of America and Western Europe. The efforts of international gangster bands and the ring-leaders of the Afghan unappeasable opposition have joined in this dirty business, about which the Pakistani press has reported more than once. The profits of the crime syndicates that are received from the drug trade greatly exceed the budget of organizations called on to fight the narco-mafia.

At the same time, businessmen and farmers are able to evade payment of taxes owing to the "black market economy" and bribe-taking. Because of the continuing political instability in the country, contrary to the expectations of the government, the activity of private capital remains extremely low. Its owners still prefer to transfer money abroad rather than invest it in the local economy.

The indebtedness of Pakistan to foreign creditors, according to official data, has reached a record level: \$14.6 billion. Under these conditions, at first glance, it is absolutely paradoxical that military expenditures in the new budget that was approved by the National Assembly at the beginning of this year, which clearly exceed defense needs, are maintained at the former level.

The civilian administration in Pakistan is doing everything possible to please the army leadership. B. Bhutto's coming to power was actually a consequence of her compromise with the military and other influential circles. In a country where generals ruled for more than half of the period of its 42-year independent existence, the armed forces traditionally hold strong positions. Not one more or

less important decision on domestic or foreign policy questions in Pakistan is made without the participation of the higher army leadership.

Today, it seems that the crisis situation that developed in Pakistan in September has ended. B. Bhutto completed a 3-day official visit to Bangladesh. There are new visits abroad in her plans. Due to a number of objective and subjective reasons, the opposition was unprepared to raise the question in the National Assembly of introducing a vote of no confidence in the government of the PPP. At the same time, militaristic announcements and the general mood of the leaders of the opposition attest to the fact that it does not intend to renounce the policy of severe confrontation with the governing administration, and that it will try to do everything possible so that at the next session of the lower chamber of parliament, which opens at the beginning of December, it will assure itself the support necessary for the introduction of a vote of no confidence in the premier.

And in the meantime both sides are analyzing the lessons learned from the regular stage of the struggle for power. B. Bhutto herself has displayed increasing confidence in her own strength, and she is acting prudently and flexibly, showing an ability to maneuver in the most complicated stratagems of the political struggle. All of this complicates the task of the opposition forces who can hardly count on achieving a convincing majority in its favor even under a concurrence of circumstances that are most unfavorable for the present government.

... Complex and diverse processes are occurring in Pakistan today. Following the sudden turn of events in the political struggle in this country, one automatically comes to one very sad conclusion. As long as the rich and well-fed continue their fight for power, tossing many millions into the wind, hundreds of thousands of poor peasants continue to vegetate in poverty and back-breaking labor, having no hope of even the slightest improvement in their situation. And there is no way out of this impasse at present.

#### Arab-Israeli Conflict Resolution Requires PLO Participation

90UI0030 Moscow *PRAVDA* in Russian, 10 Oct 89  
Second Edition p 4

[Article by A. Chistyakov: "The Near East: To Harmony Through Dialogue"]

[Text] Recently, the Near East settlement process, despite the opinion that has formed that it "is falling behind" the peaceful processes in other hot spots, has moved more and more into the ranks of priority subjects for international contacts. This is being primarily observed in the discussions of the representatives of the parties who are directly involved in the Arab-Israeli conflict and of those who should be able to contribute in some way or other to its settlement. The most varied forms of diplomatic dialogue—bilateral, multi-lateral, high political level, working level, and expert level—are being implemented.

The Near East was also on the agenda of the recent Soviet-American discussions in Wyoming. I recall that a number of today's regional conflicts have managed to be solved with the direct participation of the USSR and the United States. That is why the common viewpoint in favor of active support for comprehensive political solutions and the agreement to continue meetings of experts on regional topics, which were settled upon there, give hope.

The beginning of the scheduled 44th Session of the UN General Assembly in New York is being used again—and noticeably more energetically than in the past—for diplomatic contacts. A "Near East Section" is present in practically every report that is received on the results of meetings taking place there in which the leaders of foreign policy departments participate. Diplomatic work is also clearly gathering steam in the Near East region itself.

The present stage of active contacts in this sphere has its own prehistory. The mass demonstrations of the population on the Palestinian territories occupied by Israeli since 1967 (the West Bank of the Jordan River and the Gaza sector), which began in December 1987 and which are continuing even today, have not only illuminated the Palestinians' dislike of the occupation—and this means, their impatience with the further maintenance of the status quo—but have also stimulated important steps by the PLO on questions regarding a Near East settlement and the solution of the Palestinian problem. The PLO has put forward an initiative to recognize Israeli and to hold discussions with it within the framework of an international conference. The Palestinian leaders have declared the PLO's readiness for a dialogue with the Israeli government. No adequate reaction has as yet followed from Tel Aviv: there, they are rejecting—as before—the right of self-determination for the Palestinian people and are avoiding discussions with the PLO—whether direct or in a conference. They have also argued a great deal about whether the PLO can be trusted or not.

Nevertheless, they are evidently recognizing more and more in Israeli that these are not arguments but excuses, that this position is indefensible, that they are inflicting damage on the country's prestige, and that the conclusions in its justification do not even convince Tel Aviv's allies.

As is known, Israel adopted in 1986 a law banning contacts with the PLO. True, individual Israeli political figures conduct such contacts and others talk about their necessity. Minister M. Shahal, for example, has pointed out: "It is an illusion to believe that any prospects for solving the dispute can exist without the PLO." Forecasts of the evolution of public opinion show that more and more people in Israel will be inclined toward a dialogue with the PLO; now, every third Israeli is in favor of it. However, as they say, the law is the law and the present Israeli leaders still do not have enough spirit to abandon it.

Last year, when Jordan broke off ties with the occupied Palestinian territories, the Israeli government which had counted on "solving" the Palestinian problem during negotiations with Jordan, found itself in a blind alley—without a partner for negotiations.

During April of this year, while in Washington, Y. Shamir, Israel's prime minister, expressed a number of views regarding the question of a Near East settlement. Central to them was the idea of holding elections on the West Bank and in Gaza. This idea subsequently became part of the "peace initiative" which was adopted by the Israeli government and which was approved by the Knesset (parliament). The proposal's essence consists of the population of the West Bank and Gaza electing Palestinian representatives for negotiations with Israel.

A number of Israeli political figures, for example, M. Arens, minister of foreign affairs; Y. Rabin, minister of defense; and S. Peres, minister of finance, had repeatedly expressed the idea of elections before Y. Shamir proposed it and before it was formulated as the government's official position.

A paradoxical situation has arisen. Israel has a partner for the dialogue in the person of the PLO. Y. Arafat recently stated right out: "We are prepared for a dialogue with Israel without any preconditions on either side." In Israel, however, they continue to search for such a partner as if they were in the darkness of yesterday. Meanwhile, mounting resentment over the absence of any real progress toward the start of a peaceful process is being sensed both in the Palestinian surroundings and in Israel. This satisfies no one's interest since it is fraught with increased tension and the destabilization of the region.

Egypt has proposed a different way to get out of this situation. At the beginning of July through a delegation of American congressmen and on 15 September officially, the Egyptians transmitted a list of specific proposals to Israel's leaders. These proposals concerned the conditions for holding elections on the occupied Palestinian territories and were accompanied by a number of general principles regarding a Near East settlement. In particular, the Egyptian proposals provided for sending international observers to the elections, the withdrawal of Israeli troops from the places where they would be held, the freedom to conduct an election campaign, and the participation of the inhabitants of East Jerusalem in the elections.

It suggested that UN Security Council Resolutions 242 and 338, the "land in exchange for peace" principle, security guarantees for all states in the region, and the implementation of the Palestinians' political rights be accepted as the general political basis for a settlement. It is envisaged that discussions regarding a final settlement should follow the elections and the establishment of an interim status for the West Bank and Gaza. At the same time, the Egyptians emerged as the initiators in organizing a Palestinian-Israeli dialogue in Cairo. According to press reports, Mubarak's proposals envisage the participation of USSR and U. S. representatives in the Cairo dialogue along with Egypt—although this part of the proposals has not been passed on to the Israelis.

Since Israel is the author of the idea for holding elections and the Egyptian proposals have been addressed to it, the

matter rests on Tel Aviv's answer. As Y. Arafat recently pointed out, "A dialogue with Israel is a strategy; in no way is it a political maneuver."

In Israel, as always happens on the threshold of making important decisions, a bitter polemic has broken out between the main participants in the government coalition—the Likud bloc and the Labor Party and also within them since both of them have their own "doves" and "hawks." Voices are being heard about the fact that the participation of the inhabitants of East Jerusalem in the elections is unacceptable to Israel, although East Jerusalem is also part of the Palestinian territories occupied in 1967, and about the refusal to accept the formula of "land in exchange for peace," although it is this formula that lies at the basis of Resolution 242 which was also mentioned in Israel's "peace initiative."

(B. Netanyahu), deputy minister of foreign affairs and a Likud representative, states that Israel will not conduct negotiations "directly with the PLO, PLO members, or with people designated by the PLO." In his view, Mubarak's call for Palestinian-Israeli negotiations and the Egyptian president's "10 proposals" about holding elections on the occupied territories are "torpedoing the initiative and are not advancing it."

Logic is clearly lacking here: You see, the Israeli initiative will not stay afloat by itself; this can only be done by placing it on the negotiating table. As is known, solitary negotiations are not conducted. They are also not conducted with a fictitious partner.

In his turn, Y. Rabin (Labor Party), the minister of defense, has stated that he supports the Egyptian president's idea about direct negotiations (Palestinian-Israeli) but he does not have an appropriate mandate from the government. He and S. Peres, the present Labor Party leader, regard Mubarak's proposal as a golden chance to begin negotiations. The Egyptian initiative was discussed in the so-called "little cabinet" during 5-8 October. The votes were distributed equally between the Likud and the Labor Party. This means that the formally submitted peace initiative was blocked. However, it is perhaps early to draw a line.

The confusion over views has again put the coalition government on the edge of a crisis—this time, as they say, in earnest. The struggle over ways to arrive at a settlement is continuing in Israel.

It is evident that the question of a Palestinian-Israeli dialogue has moved to the forefront today in organizing a peaceful process. In this connection, the report of E. A. Shevardnadze, USSR minister of foreign affairs, regarding the proposal made by him offering his mediation services in organizing a meeting between PLO and Israeli representatives on Soviet territory, has evoked a large response. The Soviet minister also recalled the proposal for consultations on Near East settlement matters between the five permanent members of the Security Council; these could be begun at the expert level. The

inclusion in these consultations of representatives from the parties most involved in the conflict would contribute to expanding the dialogue between them and to finding compromise solutions, in particular, using the United Nations' peacemaking potential. A multivariant

approach toward overcoming the situation that has taken shape could open up the way to a comprehensive settlement of the Arab-Israeli conflict and to the convening of an international conference on the Near East for this purpose in the near future.

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**DATE FILMED**

27 Mar. 1989